Nation's Business

The Small Business Adviser

What's At Stake In The Road Debate

The New Face Of Presentations

Asset Accounts That Keep Cash Working

Retirement Plans

Options, benefits, and risks for small firms

Furniture makers Stephen and Linda Koreny recently selected a SIMPLE IRA plan for their firm.

Published by
U.S. Chamber of Commerce
JULY 1997 - $2.50

OUR NEW-

*Based on an average of consumer-reported problems at 3-months' ownership in a survey of Ford and competitive models designed and built in North America. **Based on '93, '94 and '95 New Vehicle Customer Survey. †Sales leadership based on Divisional sales.

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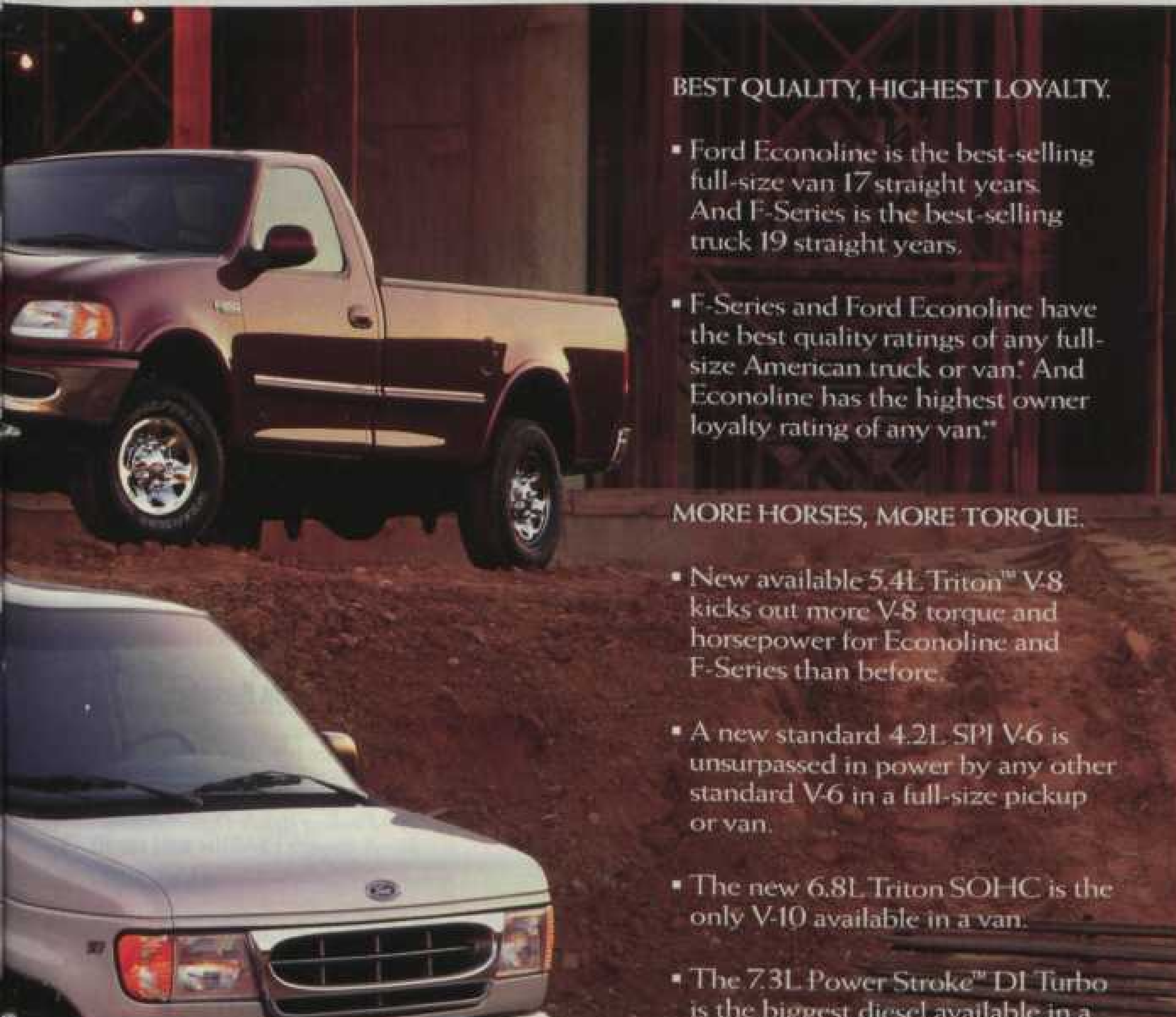

THE BEST-BUILT,* BEST-SELLING AMERICAN TRUCKS.

BUILT Ford TOUGH

Nation's Business

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ILLUSTRATION: GEORGIA LEIGH MCDONALD

The trend in retirement plans *for small firms is to tailor choices according to company size and ability to contribute. SIMPLE plans, regular 401(k)s, and other plans funded more by workers' contributions than by employers' are growing fast. Cover Story, Page 12.*

PHOTO: ©ROBERT BURROUGHS

Scientist *Gloria Ma's company uses a special technology to fortify structures against earthquakes. Making It, Page 47.*

VOL. 85, NO. 7

PHOTO: ©MICHAEL MCDERMOTT—BLACK STAR

An advanced projector *enables Herman Colbert to convey the right company image. Small Business Technology, Page 33.*

DEPARTMENTS

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Editor's Note

A Way To Attract Workers

PHOTO: ©TERRY ASHE

As the labor market tightens, many small-business owners are finding they must offer retirement plans to attract and keep good workers. The financial-services and insurance companies that set up and administer such plans, meanwhile, are working to tap the small-business market, where they see growth potential.

This increasing interest in retirement plans makes our cover story, "Pension Power," particularly timely. We hope it will be useful for small-business owners and managers in assessing their retirement-plan options and the benefits and risks of each.

The article was written by Senior Associate Editor Steve Blakely (at right in the photo above), who, in one facet of his reporting, discussed prospects for pension-related action in Washington with House Ways and Means Committee Chairman Bill Archer, R-Texas (at left in the photo), among other knowledgeable sources. The story begins on Page 12.

PHOTO: ©TODD BUCHANAN

In this month's franchising special guide, we examine the rising trend in unit resales. Associate Editor Roberta Maynard explores the growing opportunities as well as the do's and don'ts in buying a business from a franchisee rather than a parent company. Among the experiences she explored were those of Kelly and Matt Wendl (at left), who bought an AmeriSpec home-inspection franchise in Chicago. If you're thinking of buying a business of any kind, don't miss this report beginning on Page 49.

Mary Y. McElveen

Mary Y. McElveen
Editor

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Letters

The Importance Of New Management Strategies

Thank you for highlighting in your May cover story, "Leadership For The New Age," how important it is for managers to rethink their techniques and strategies for managing in the future.

I am a bit surprised, however, that this seems to be such a new idea. People such as Mary Parker Follett and W. Edwards Deming, the father of total quality management, were ahead of their time, but American business leaders and managers could not rid themselves of their ill-conceived concepts of "scientific management." It is no wonder that American industry fell behind the Japanese in product quality and in the treatment of workers.

I am thankful that management thinker Peter F. Drucker has developed a loyal following and that leaders in both the nonprofit and for-profit sectors have paid attention to what he has said and written. Sadly, though, Drucker's greatest following has been in the nonprofit sector. As in the past, business leaders have been too slow in getting on board.

Curtis B. Ankeny
Program Assistant For Outreach and Recruitment
Friends United Meeting
Richmond, Ind.

Missing Integrity?

What a contradiction was summoned up in "Thoughts On Leadership And Leaders," which accompanied your May cover story.

Max De Pree's quotation regarding integrity carried more than a little irony when one has in mind the current undisputed leader of the world, President Clinton.

Integrity in today's political and business worlds? Forget it. Never has there been more gross disillusionment in American business because of a lack of integrity at the top.

Douglas Swanson
President and CEO
Swanson Systems, Inc.
Erie, Pa.

Respect And Recognition Are Seen As Givens

I just finished reading "How To Motivate Low-Wage Workers," in your May issue. What I can't understand is the emphasis that the story's subjects place on respect and recognition. These are essential in all areas of business and at all wage levels. Respect and recognition should not be used as a pacifier in lieu of raises.

I have two jobs. My day job is a lower-medium-wage position as an office manager for a music store, where I have been for almost 10 years. My night job is a low-wage position as a cashier at a local supermarket.

Most employees at my day job don't like working there because raises and reviews are virtually nonexistent. If a raise is given, it is only after a few weeks of begging (literally), and the minimal raise (15 to 20 cents an hour) takes months to go into effect.

A medical and dental plan is available, but those who sign up for it must endure periodic whining from the owner ("Doesn't your spouse work? Get on his or her insurance. These premiums are killing me!"). There are no sick days, no personal days, no reviews, and no retirement plan.

The supermarket job is great. All the employees are happy and motivated. They help one another and will answer questions if asked. After only one month on the job, I got a promotion and a raise. Automatic raises are given every six months. Medical insurance is only one of the benefits offered—I get my birthday off, discount tickets to the movies and to Disney World, and more.

It is a union job, and there is a bulletin board where job openings throughout the

company are posted. You are never stuck in a job you don't like.

If I had to choose between jobs, I would leave my day job in a heartbeat.
Donia A. Madden
Brockton, Mass.

Banker Counterpunches Against Credit Unions

I read with some chagrin "Banks Challenge Credit Unions' Growth" [Small Business Financial Adviser, May]. It is interesting that what I consider to be the most significant point of the article is in the last sentence. After promoting the benefits and attributes of the credit-union industry at length, only in the last sentence does the article mention that credit unions do not pay taxes.

The credit-union industry loves to label the banking industry's opposition to the credit unions' expansionist efforts as "greed." The banking industry prefers to label it as "opposition to unfair competition."

I also found it interesting that the controller of the company mentioned in the article, Discwax Co., Inc., of Stanley, N.C., was very open to having a credit union provide services to his firm. I wonder if he would be equally open to having a direct competitor of Discwax move in across the street and compete for his customers with a 20 to 30 percent cost advantage resulting from not having to pay federal income tax.
John G. Jackson
President and Chairman
State Bank and Trust
Colorado Springs, Colo.

Some Additional Advice: Get An Insurance Broker

I enjoyed your insurance special report in the June issue ["Finding Coverage For Small Offices"], but the article missed the boat in its advice to readers.

I have worked as a consultant to small businesses for the past eight years, and the best insurance advice I can give them is to get an insurance broker.

If used properly, an insurance broker can become your "in-house" insurance expert without costing you anything. Insurance brokers find the carrier, negotiate the contract, and resolve disputes. A good broker is better than a good accountant. And insurance brokers are like travel agents in that they receive their commissions from the carriers, not from you.
Greg Chartier
Director of Human Resources
Jelenko Dental Health Products
Armonk, N.Y.

A One-Stop Insurer

"Finding Coverage For Small Offices" did a good job of highlighting the fact that many businesses (especially home-based ones) still do not realize the need for insurance coverage beyond a homeowner's policy.

I was disappointed, however, that The Allied Group was not mentioned as a source for home-based-business coverage. Although the firms listed in your "Contacts For Coverage" box are excellent carriers, to the best of my knowledge their policies do not cover the dwelling from which a home-based business is operated; the business owner must still purchase a homeowner's policy to cover the dwelling, personal property, and personal liability.

The Allied Group's Home Enterprise policy is a single contract that provides coverage for the dwelling, personal and business property, and personal and business liability. There is no need for separate homeowner's and home-based-business policies.

Many independent insurance agents represent The Allied Group, and Allied agencies can be found in many states west of the Mississippi River and in Wisconsin, Indiana, Ohio, and Tennessee.
Larry W. Phillips
Assistant Vice President
The Allied Group
Des Moines, Iowa

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ENTREPRENEUR'S NOTEBOOK

Happiness Is A Screening Process

By Jackie Bazan

It's an old adage that you should do what makes you happy. Sadly, many people don't think about work in those terms, or their business lives simply don't create interest or happiness.

That usually is explained away as a necessary evil. But when I formed my company, Bazan Entertainment Marketing, three years ago, I decided to limit the necessary evils in my business by focusing on what I like doing.

Specifically, that meant not only working in the film industry but also limiting my business to marketing and publicity for African-American and other minority-made and -oriented films.

Since then, my company has handled regional and national marketing and publicity for such films as Spike Lee's 1996 "Get On the Bus"; his latest project, "4 Little Girls," due for release in July; and "When We Were Kings," a boxing documentary that won an Oscar this year.

When you carve a very specific niche, you are taking a calculated risk. You are limiting your potential client pool and counting on your ability to dominate that small market and to get ahead doing business on your own terms.

If you succeed, you will be doing what makes you happy.

Here are some keys to thriving when your business is focused on a small niche:

Figure out what works. When I started my business, I wanted it to be exclusively a film-marketing firm. And while movie-distribution companies realized they needed specialized help in marketing minority-produced and -oriented films, they also knew they needed outside publicity assistance.

I learned quickly that large distribution companies don't want to pay two different firms for these services and that smaller distributors can't afford to. So I changed my plans. To be successful in my niche, my focus needed to be expanded enough to meet the needs of the industry.

Build on your reputation. Satisfied customers and referrals are vital to both survival and success for niche businesses. Narrowing your focus means swimming in a shallow pool of potential clients, so you have to be the best at what you do—and be known for it.

You need every client not only to return to you but also to sing your praises. You have to work hard to get referrals, and you must be a lot better than good—but the effort is well worth it.

Taking a slice doesn't mean ignoring the rest of the pie. Going after the business in your primary market is your top concern, but that doesn't mean you have to ignore crossover or expanded markets. While you saturate your primary market—your bread and butter—pay attention to tangential markets.

For example, when we invite the head of Essence Communications, an African-American media company, to an advance screening, we also invite the editor of the Arts & Leisure section of *The New York Times*. Ultimately you want your project or product to be successful on as many levels as possible.

To thine own self be true. My goal has never been to be the biggest but rather the best. I want my company to be the one that distributors call first when they have a project. That means taking on only as much as my company can handle well.

We're representing six films during the current six-month period. We have handled as many as eight projects in a quarter, but to be honest, it was just too stressful.

Rather than increase the size of my staff, I prefer to deal with fewer films and to maintain my overhead at a level where we don't need the revenue from additional movies. That way, we can do what we do better than anyone else. NB

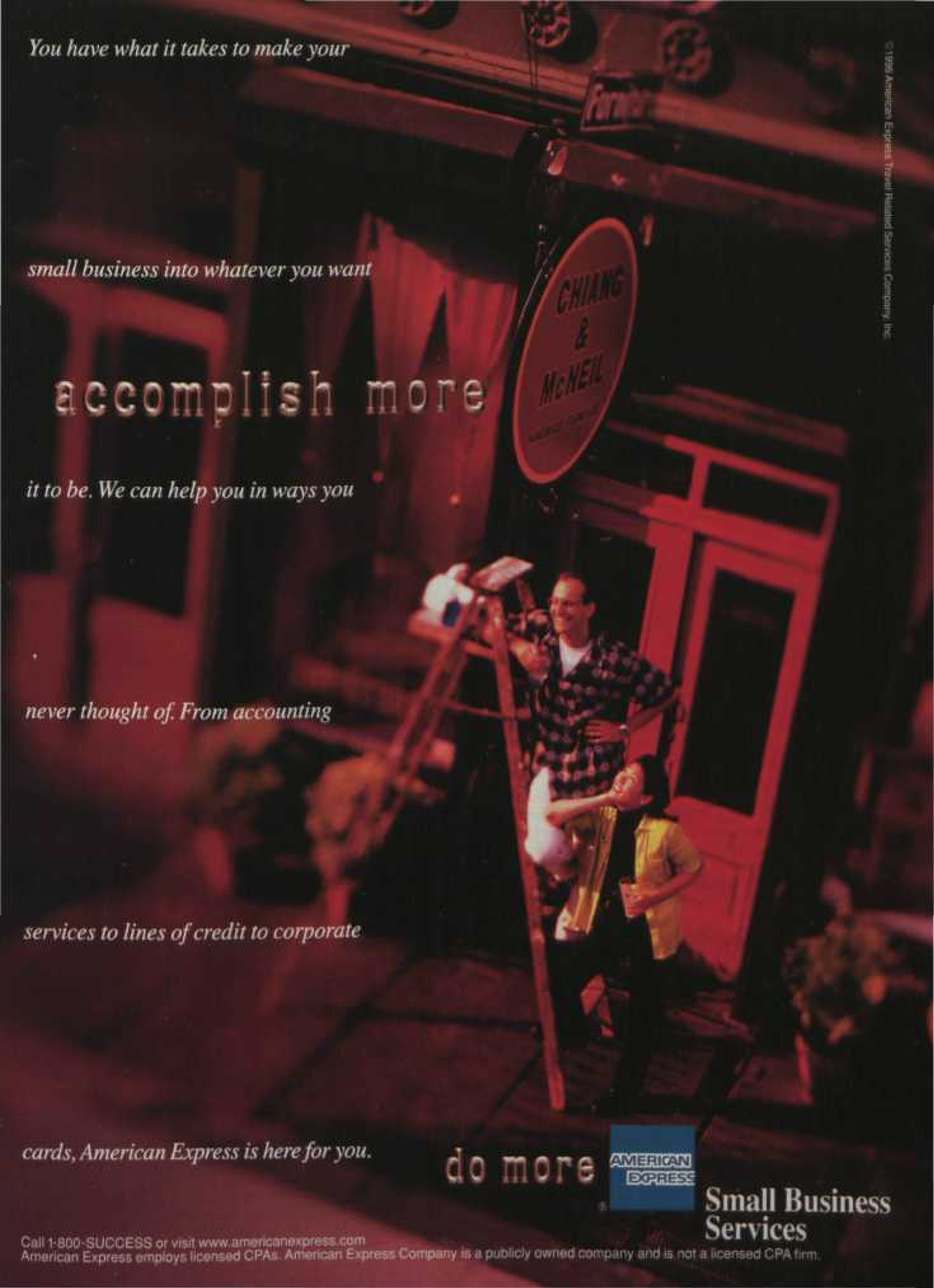
PHOTO: STOM SOBOLIK—BLACK STAR

Concentrating on being *the best rather than the biggest is the principle that propels film publicist and marketer Jackie Bazan.*

Jackie Bazan is founder and president of Bazan Entertainment Marketing in Jersey City, N.J. She prepared this account with Contributing Editor Susan Biddle Jaffe. Readers with insights on starting or running a business are invited to contribute to this column. Write to: Entrepreneur's Notebook, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

WHAT I LEARNED

Finding fulfillment in a start-up business means focusing on what you like doing.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Dateline: Washington

POSTAL COSTS

Revisions Take Effect For Fees, Services

The U.S. Postal Service has changed its prices for several products and services used by many businesses, including post office boxes, registered and insured mail, and return receipts.

The revisions, which took effect June 8, increase the maximum coverage level for two categories of insurance, restructure the fees for post office boxes, and eliminate special delivery. Recommended by the independent Postal Rate Commission and approved in May by the Postal Service's Board of Governors, the changes are expected to increase revenues related to those services by about $100 million per year, say Postal Service officials.

Postal Changes

The following are among the fee and service revisions that the U.S. Postal Service implemented nationwide June 8. All fees are in addition to postage and any other charges.

Old Structure	New Structure
Certified Mail	
$1.10	$1.35
Insured Mail	
Up to $50 of liability: 75 cents	Up to $50 of liability: 75 cents
Up to the maximum $600 liability: $6.10	$50.01 to $100 of liability: $1.60
	$100.01 to $5,000: $1.60, plus 90 cents for each $100 (or less) of value beyond the initial $100
Express-Mail Insurance	
Maximum $500 liability: No charge	Up to $500 of liability: No charge
	$500.01 to $5,000: 90 cents for each $100 (or less) of value beyond the initial $500

SOURCE: U.S. POSTAL SERVICE

The changes mark the first time that the Postal Service has been granted a substantial increase in operating revenue by the Postal Rate Commission outside of a general-rate-increase case, says John Ward, vice president of marketing services for the Postal Service. The changes are part of a series of adjustments that are updating the agency's product line, says Ward.

Until June 8, the maximum level of liability for which merchandise mail could be insured through the Postal Service was $600, and the limit for express-mail insurance was $500. Now, the limit is $5,000 in each category.

The changes were sought in large part to provide adequate insurance for the shipment of computers and other expensive electronic equipment, a market that private delivery companies have dominated. "I think we'll see a bump in volume," says Ward.

The Postal Service revised the categories and some of the fees for post office boxes, depending on the size of the box and the population density of the delivery area served by the post office. Some fees were eliminated in rural areas where businesses and residents do not qualify for carrier delivery. The largest boxes in New York City increased to $418 per six months from $348.

Postal customers can no longer send registered mail without insurance for mail valued at between $100 and $25,000. Only registered mail valued at $100 or less can be sent uninsured. The insurance limit remains at $25,000, and the fees remain the same.

The fee for certified mail—not including postage—was increased to $1.35 per piece from $1.10. Special delivery was eliminated in the United States but retained for overseas mail. Officials said that special-delivery use has dwindled for years and that other services, such as express mail, can handle items that had been mailed special delivery.

The new system for return receipt merges two categories—return receipt and return receipt with address—into one, at a fee of $1.10 in addition to postage. Return receipt for merchandise mail combines two previous options as well, at a fee of $1.20 plus postage.

In addition, the Postal Service says it will soon begin a test of a system that would provide delivery confirmation for express mail, priority mail, parcels, and international shipments.

—Steve Bates

TAXES

Small Businesses Gain Electronic-Filing Reprieve

The Internal Revenue Service is providing a six-month amnesty period, through Dec. 31, during which small businesses will not be penalized for failing to start using the agency's electronic-filing program to pay their federal payroll and income taxes.

Without the amnesty period, firms subject to but not complying with the July 1 deadline for participating in the Electronic Federal Tax Payment System (EFTPS) could have faced penalties equal to 10 percent of the taxes owed. The deadline applies to companies that paid $50,000 or more in employment taxes in 1995.

Currently, firms whose annual employment-tax deposits are less than $47 million annually can choose between participating in the EFTPS and making tax deposits at their bank, which forwards the money to the IRS.

Bills pending in Congress would keep participation in the EFTPS optional for all but the approximately 1,500 companies that pay more than $47 million a year in employment taxes.

Information on the EFTPS, including enrollment instructions, can be found at a section of the IRS's World Wide Web site, *www.irs.ustreas.gov/elec_svs/eftps.html*, or by calling 1-800-555-4477 or 1-800-945-8400.

—Albert G. Holzinger

Managing Your Small Business

Nurturing in-house skills; marketing to the homeland; playing David to a retailer's Goliath.

By Roberta Maynard

HUMAN RESOURCES

Discovering The Talent Around You

Promoting from within, commonplace at many companies, generally is limited to advancing employees within their disciplines. But Liberty Orchards Co., Inc., a candy maker in Cashmere, Wash., has learned that hidden talent can be uncovered by taking a broader view. That philosophy enabled David Simmer to advance from the company's shipping department to head of its graphic-design operation.

Liberty, a 77-year-old company, had been working with an outside design firm last year to develop packaging for its new line of sugar-free fruit candies. The designers had come up with several ideas that were acceptable but lacked excitement, says Michael Rainey, senior vice president of sales and marketing.

Rainey recalled that Simmer, a computer whiz, had produced designs for T-shirts and hats for the company's retail store, which is next to the plant. So he asked Simmer to come up with a package design. The next day, Simmer presented an array of designs that company managers thought were great, and he found himself in charge of the entire project.

The company put Simmer in an office, bought him a computer and design software, sent him to design-training classes, and gave him two pay increases. Those costs were offset by the $180,000 the company had planned to pay the outside design firm over the year. Simmer proved his worth by finding vendors who provided better quality than the company previously had and a more efficient printing process.

"Not everybody has a David Simmer sitting around," says Rainey. "But we've found over the years that if you look for talent within the organization, often you can find it." Another recent example: A plant worker with self-taught computer skills was put to work on the company's electronic-data-interchange system.

"It really boils down to being observant about people's talents and skills," Rainey says. "That philosophy helped us find David. I think companies really miss a lot of opportunity by not paying attention to the people working for them."

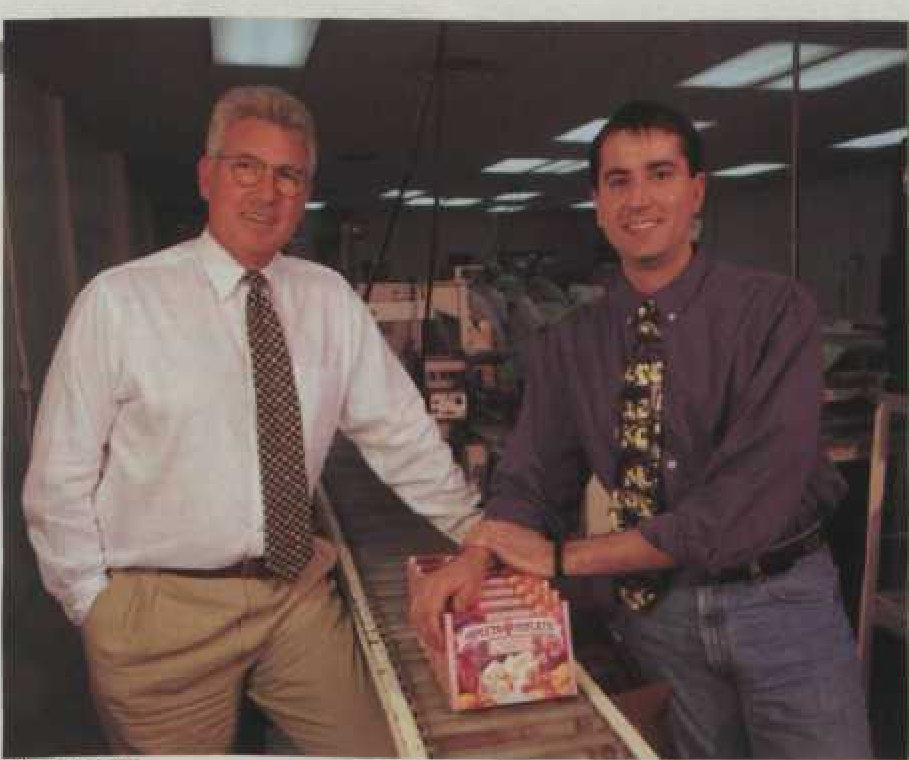


PHOTO: UPAUL SOUDERS

Life got sweeter *for David Simmer, right, when candy-company executive Michael Rainey's eye for talent enabled Simmer to take charge of the firm's graphic-design work.*

MARKETING

Reaching Hispanics' Relatives Back Home

Companies marketing to Hispanics living in the United States should keep in mind a potentially lucrative secondary market—relatives and friends back home. Two-thirds of Hispanics who live in the contiguous 48 states but were born in Puerto Rico or outside the United States regularly visit their birthplaces, often taking gifts, according to Strategy Research Corp., a market-research firm in Miami.

The firm interviewed 1,000 Hispanics in Los Angeles, San Francisco, Chicago, Miami, and New York. It found, for example, that 92 percent of those from Puerto Rico returned for visits annually and that three of four adults among them took gifts with them.

About 83 percent of Hispanics of Mexican origin who traveled home during the past year brought gifts, as did 88 percent of the South American natives. And because 70 percent of Hispanics living in the United States prefer buying U.S. brands, says Strategy Research, it's likely that most gifts were U.S. products.

What gifts do they buy? Eighty-six percent of those who went home with gifts took clothing; electronics and perfume were next at 23 percent each; 12 percent gave small appliances; and sporting goods and recorded music came in at 11 percent apiece. The Hispanics also took home toys, jewelry, and furnishings.

It may be worth trying to reach these relatives directly by advertising in Latin American publications, partly because of the relatives' increasing buying power. Strategy Research estimates that in a typical month, 1.1 million Hispanic households in the United States send $224 million to their families outside the country.

That amount is on the rise, says the firm. In 1996, the average sent per family in Chicago, for example, was $222, up from $143 two years before.

COMPETITION

Improving Efficiency Beats A Price War

If a competing national chain store moved into a space a block away from your business, what would you do?

When it happened to The King Group, an office-products store in New York City, managers sought to retain customers not only by cutting prices but also by improving the firm's operational efficiency. The efforts succeeded for the 30-year-old family business, says CEO Robert J. Gillon Jr., and they improved customer service to boot. Central to the company's strategy was a fundamental change in King's distribution system.

The firm had been buying all of its products from manufacturers and wholesalers. When products came in, King employees would break down the shipments and repack items for sale to customers.

One of Gillon's first moves was to form a partnership with just one wholesaler, who would get 90 percent of King's business and would select, pack, and wrap the products for King.

That enabled King to reduce its warehouse staff from 20 employees to three. Because products arrived ready for delivery, King's trucks were loaded earlier in the day and the company was able to guarantee next-day delivery to its customers, who buy primarily through a catalog or direct-sales representatives.

At the same time, King cut its inventory costs by reducing the number of items it kept in stock from 2,000 to the 150 fastest-moving products. As an extra edge, the company introduced executive gifts, stationery, and other specialty items not offered by the competition.

Finally, Gillon's team established 12 daily measurements, such as the percentage of orders the wholesaler has filled and the time the last truck left King's. "Now, with the measurements we use, I don't have to wait for customers to complain that something wasn't delivered," says Gillon. "I can tell my salespeople at the beginning of the day if I have a problem with a truck, and they can alert the customers."

Gillon also hired a sales trainer to help the sales force emphasize the company's strengths in service and delivery. Selling based on price was made secondary to a sales approach based on customers' needs. Since the changes were made three years ago, three of King's 12 salespeople have doubled their income.

"People get caught up in price, price, price," Gillon says. "They think that [chain stores'] success comes from just buying in volume, but what they really did was cut out inefficiencies in delivery. That's what we're trying to do."

Thanks to the improvements, King can maintain competitive prices. King's revenues, which had been either flat or down for the three years before the changes, have increased 15 percent in each of the past two years. ■

PHOTO: ©ARNOLD ADLER

Improvements *in operational efficiency helped Robert J. Gillon Jr.'s office-products store keep customers when a national chain outlet moved in nearby.*

FINANCING

Has Your Company Outgrown Its Bank?

Many companies that have prospered during the recent years of growth in the nation's economy are now able to look beyond their local bank for working capital, says Terrance McGovern, managing director of Duff & Phelps LLC, an investment-banking firm in New York City.

McGovern has formulated a four-part set of conditions that can help a company determine its readiness to seek new sources of financing—in particular, private placement of debt (loan from a private investor) or equity (sale of securities directly to an investor). A particular company's circumstances, he says, should match as many as possible of the following benchmarks:

- Over the past three years the company has had stable growth—not necessarily spectacular but certainly in line with the growth rate of the gross domestic product.
- Sales are nearing $50 million. McGovern adds, however, that a company with lower revenues may be an attractive candidate for private placement if its profits can service the debt comfortably.
- The loan-amortization schedule is restricting the firm's cash flow and thereby its ability to reinvest in the business.
- The company's outstanding bank debt is more than $10 million.

Private placements offer companies more-flexible terms that free up cash, says McGovern. "Most bank loans must be repaid within five years, and amortization schedules require repayment of principal and interest beginning in year one. A private debt placement may have a seven-year term and require no repayment of principal until year five." Payments are lower, and more capital can be put to work in the business, he says.

McGovern notes, however, that a private placement's legal fees can be higher than those of bank financing and that transaction documents can be more complicated. ■

NB TIP

Business Brokers

When you're looking for a broker to help you buy or sell a business, ask about the broker's level of experience and pursuit of continuing education. When getting references, ask for the names of not only buyers and sellers but also attorneys, accountants, and commercial bankers. These tips are offered by Wilbur M. Yegge, management consultant, small-business broker, and author of *A Basic Guide for Buying & Selling A Company* (John Wiley & Sons, $19.95). For information on finding brokers by location or by field of expertise, see Page 53, "Finding Resale Opportunities," part of this month's franchising special guide. NB

COVER STORY

Pension Power

PHOTO: NEAL DAMICO—BLACK STAR

A SIMPLE IRA *proved to be an affordable retirement plan for Stephen and Linda Koreny and their 16 employees at Annan Run, an unfinished-furniture company in Oxford, Pa.*

By Stephen Blakely

A few months ago, furniture makers Linda and Stephen Koreny, owners of Annan Run, Inc., of Oxford, Pa., rolled out a new product: a company-sponsored retirement plan for themselves and their 16 employees.

The Korenys, who started their unfinished-furniture business in their basement 13 years ago, chose a SIMPLE IRA—a new, low-cost way for small-business owners and their workers to contribute jointly to tax-deferred individual retirement accounts.

IRAs that are set up under the terms of the recently enacted SIMPLE legislation (Savings Incentive Match Plan for Employees) require the sponsoring company to match up to 3 percent of participating employees' salaries and grant workers instant ownership of their employers' matching contributions.

Despite those rules, the Korenys decided it was worth the cost to gain a retirement plan for themselves and their employees. The clincher was the program's lack of red tape and its low administrative costs.

"SIMPLE is a major plus for us and our business," says Linda Koreny, noting that her company could not afford the higher administrative expenses of either a 401(k) plan or a profit-sharing plan. "The 3 percent match was affordable," she says.

At the corporate law firm of Kreis, Enderle, Callander & Hudgins in Kalamazoo, Mich., the 50 employees depend on a regular 401(k) plan for their retirement benefit. "The 401(k) is the bedrock of our retirement plan," says managing partner Alan Enderle, who notes that some employees contribute very aggressively to the plan to build their account balances. In addition, the firm recently expanded its tax-deferred profit-sharing plan to supplement the 401(k).

The Korenys' company and Enderle's law firm illustrate the national trend in retirement plans: Small firms are establishing plans and tailoring their choices to match the size of the company and its ability to contribute. Moreover, much of the growth in retirement plans is occurring among those funded more by workers' contributions—such as SIMPLE plans and regular 401(k) plans—than by employers'.

Nationwide, all the recent growth in retirement coverage has come from "defined-contribution" plans, in which the worker, employer, or both annually contribute a set amount or percentage of compensation. Traditional "defined-benefit" plans, which provide a predetermined retirement benefit to owners and employees and typically are funded by the employer, have been in steady retreat for

Small firms that decide they need retirement plans now have more ways of creating the kind that might work best for them at a price they can afford.

years. (See the chart on Page 14.) Current trends also indicate that:

■ The dramatic growth of 401(k) plans to about $925 billion from $190 billion in the past 10 years is creating new responsibilities—and risks—that many small-business owners may not fully understand.

■ Competition is getting fierce for the 401(k) business of small firms, as retirement-plan providers see the small-employer sector as their last big opportunity for growth.

■ Small employers appear to be responding favorably to the new SIMPLE IRA retirement plan but not to the SIMPLE 401(k). Both plans became available in January to businesses with 100 or fewer employees as a result of a 1996 law.

Although it's too soon to judge the overall impact of SIMPLE on small-business retirement-plan coverage, Congress is already drafting legislation that would make SIMPLE less simple and more costly for the very businesses the plans were created to serve. (See "Pension Changes Simmering In Congress," Page 20, and "Small Firms' New Retirement Choices," February.)

While small firms are slowly increasing their level of pension coverage for their workers, they remain far behind bigger businesses.

According to Access Research, Inc., a Windsor, Conn., research and consulting firm, 24 percent of small businesses (fewer than 100 workers) had retirement plans last year, a gain of 2 percentage points since 1993. By comparison, 51 percent of midsize companies (100 to 1,000 workers) and 98 percent of big companies (more than 1,000 employees) had retirement plans.

Although cost is often cited as the main reason for the lack of small-business coverage, taxes and red tape have also reshaped the U.S. retirement-plan market in the past 10 years.

A key event was the 1986 Tax Reform Act, which created disincentives for defined-benefit plans by lowering the maximum compensation level for computing benefits (the current level is $160,000 a year) and increasing federal reporting requirements.

As the burden of saving for retirement has shifted dramatically from the employer to the worker, some pension experts say the change may actually benefit today's more mobile work force: Unlike defined-benefit plans, defined-contribution plans allow workers to take their retirement assets with them as they change jobs.

Experts also say that small-business pension coverage may be growing because workers are willing to pay for their own retirement rather than have no plan.

"A lot of small employers wouldn't have a retirement plan at all if they didn't have a 401(k)," says Chris Bowman, assistant director for pension services at the Principal Financial Group in Des Moines, Iowa. The company is the country's largest writer of small-business retirement plans.

For small businesses, retirement plans do not have to be overly complex or expensive. Here's a rundown of the major plan options:

COVER STORY

Defined-Benefit Plans

These plans provide workers with a predetermined retirement benefit paid for primarily by the company.

The benefit is determined by a formula typically based on years of employment and salary level. To encourage loyalty and to reward service, these plans require either five or seven years of service—the employer chooses—before workers become fully entitled to, or fully vested in, the benefit.

Under five-year vesting, the employee owns no portion of the employer's contribution until the end of the fifth year, when full vesting occurs. Under seven-year vesting, the employee gradually acquires ownership, usually in 20 percent annual increments beginning in the third year, until full vesting is reached at the end of the seventh year.

Defined-benefit plans give the greatest rewards to employees with the most seniority and highest pay. Funds usually are not accessible by the employee until the person reaches retirement age.

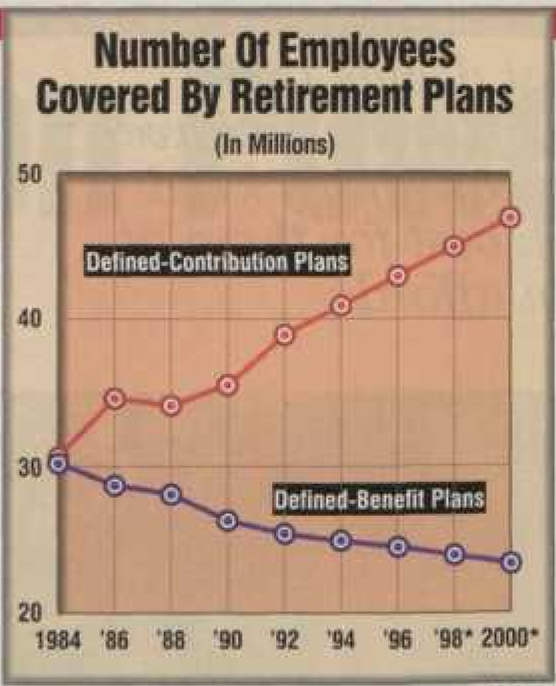
Defined-benefit plans have advantages for both the employer and the worker:

- Employer contributions are a tax-deductible business expense up to an annual maximum of $125,000 per worker (indexed for inflation).
- Retirement costs for short-term employees are minimal or nonexistent because the employees don't stay long enough to earn a benefit or much of a benefit.
- Benefit outlays are typically postponed until far into the future.
- Contribution limits are among the highest permitted.
- For employees, the benefit is guaranteed.

But there are some big disadvantages as well: Defined-benefit plans lock the company into fixed, long-term obligations and are accompanied by a costly tangle of government requirements. For instance, employers must pay hefty insurance premiums on their defined-benefit contributions to the Pension Benefit Guaranty Corp. (PBGC), a federally sponsored insurer that pays pension benefits to retirees whose company-funded, defined-benefit pension funds have gone bankrupt.

There are also daunting "nondiscrimination" tests and "top-heavy" rules designed to prevent excessively generous tax-favored retirement benefits for executives. Moreover, surveys have shown that defined-benefit plans are not generally understood or appreciated by most workers because benefit formulas are complex and workers have no access to their accounts until retirement.

Robert Eastwood, vice president of technical services for Actuarial Consultants, Inc., a pension consulting firm in Torrance, Calif., says the drawbacks to a defined-benefit plan are that "it is complicated, it is expensive to administer, you have to put



SOURCE: CERULLI ASSOCIATES *Estimated

Catching Up On Retirement Savings

Many entrepreneurs headed for retirement are looking for ways to catch up on the tax-deferred retirement contributions they couldn't afford in the years when they were struggling to get their businesses established.

The good news: There are ways the Internal Revenue Service allows you to sock away a lot of money fast. The bad news: It's not easy or cheap. Not only are there fees to set up and administer these so-called hybrid retirement plans, but the skills of accountants or pension experts are needed to keep the plans out of legal trouble.

"I've done some creative work for the little guy, but by definition it's expensive. You need an actuary," says Robert Eastwood, vice president of technical services for Actuarial Consultants, Inc., a Torrance, Calif., firm that specializes in designing retirement plans.

Customized hybrid retirement plans are able to mix certain features of both defined-benefit plans and defined-contribution plans, thereby providing both a guaranteed benefit and tax-deferred contributions. They can run as high as $5,000 to set up and $1,000 to $2,000 a year to maintain, Eastwood notes. But such plans allow owners or senior managers to defer as much as 25 percent of their net compensation, up to $30,000 a year.

Eastwood favors the "cross-tested" plan, a modified profit-sharing plan, as the best option for maximizing tax-deferred retirement savings late in life.

Conventional profit-sharing plans require a straight pro-rata share of profits to be distributed to all employees, up to 15 percent of pay. But under the cross-tested plan, if the owners or senior managers are significantly older than the rank-and-file, there can be a disparity in distributions that allows those closer to retirement to defer a significantly higher share of their income.

An "age-weighted" variation *of the profit-sharing plan is helping financial consultant Morgan P. Underwood Jr. save for retirement.*

up with actuaries such as myself, and you have to pay insurance premiums."

Defined-Contribution Plans

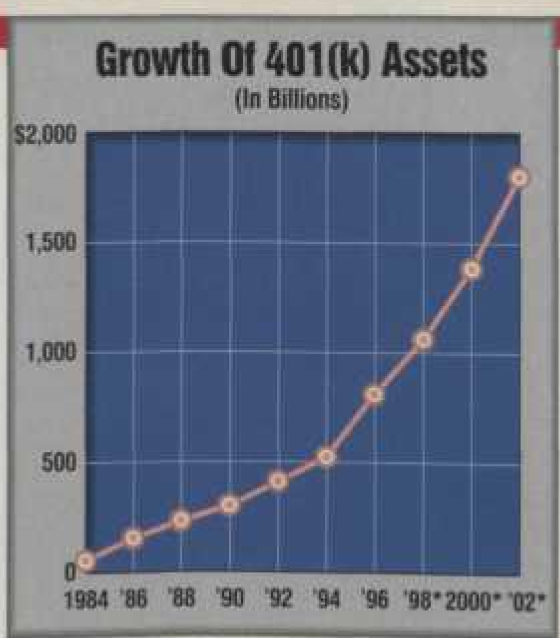
Defined-contribution plans allow either employers or workers—or both—to contribute voluntarily to tax-deferred retirement savings accounts, although certain plans (such as SIMPLE plans) mandate an employer contribution.

These plans allow workers to reduce their taxable income by the amount they save and to defer taxes on those savings. Just as with defined-benefit plans, distributions are taxed as ordinary income upon retirement. Unlike defined-benefit plans, however, defined-contribution plans give employees access to their funds before retirement, but a 10 percent penalty is imposed for early withdrawal before age 59½.

Another notable difference is that defined-contribution plans do not guarantee an actual benefit; they merely define a rate of contribution. Typically, workers can adjust their contribution rate and direct the investment of their retirement assets in a limited range of options selected by the employer.

Defined-contribution plans give employers the flexibility to suspend matching contributions during lean times. Workers are immediately vested in their own contributions, and the accounts are "portable," meaning that participants can take the funds with them if they move to a new job. Employers can set a vesting schedule for the company match, subject to the same federal five- or seven-year vesting limits that apply to defined-benefit plans.

Defined-contribution choices include:



SOURCE: ACCESS RESEARCH, INC. *Estimated

401(k) Plans

These plans, named for the section of the tax code that authorizes them, have been the fastest-growing type of retirement plan in the United States for several years.

They allow workers to defer income taxes on as much as 25 percent of their pay, to a maximum of $9,500 this year (indexed for inflation), and to invest the funds in a variety of accounts selected by the employer. (No-load mutual funds are the most popular.) Most employers match a portion of their workers' contributions.

Complex nondiscrimination rules limit the amount of money that highly compensated individuals can channel into their 401(k) accounts. These rules are designed to prevent highly paid employees—those making more than $80,000 this year, indexed for inflation—from amassing more than 60 percent of the plan's total assets. As a result, the rules frequently reduce the allowable contribution for highly paid employees to less than the $9,500 annual maximum. Because of the costs of complying with these rules, 401(k)s are usually not cost-effective for businesses with fewer than 25 employees, plan experts say.

For employers, a 401(k) is less expensive

For example, Morgan P. Underwood Jr. is a principal with SunAmerica Securities Inc. of Los Angeles and sole proprietor of Morgan P. Underwood & Co. of Pasadena, a financial-consulting firm he established in 1973. "In the early years, there was no way I could set aside much money because I was starting the business," Underwood says. "It takes a long time to build that client base, and I had four children. Saving for retirement was essential, but I couldn't afford it."

About 10 years ago, Underwood installed a type of retirement-plan arrangement that is often used by the self-employed: a profit-sharing plan supplemented with a money-purchase plan in which the employer is obligated to make annual contributions (usually based on a percentage of pay) to all employees regardless of profits.

But it was only two years ago that Underwood hired Actuarial Consultants to establish an "age-weighted, cross-tested" retirement plan, a variation of the profit-sharing plan. It enables him to contribute 25 percent of his net compensation, up to $30,000 annually, to a tax-deferred savings account. His one full-time employee, an office administrator, re-

PHOTO: [illegible]—BLACK STAR

A "comparability plan" *is helping Richard Robertson, co-owner of Southeastern Lubricants, Inc.*

ceives a contribution equal to 3 percent of her salary under the plan.

Age disparity is the key to this arrangement. Underwood is 68; his employee is 30. Underwood is required by law to start drawing on his retirement account by age 70½, but his employee has more than three decades to save for retirement.

Richard Robertson, vice president and co-owner of Southeastern Lubricants, Inc., a distributor of industrial lubricants in Kingston, Tenn., is another entrepreneur who started late in saving for retirement. He began his business in 1981 with one full-time employee and now has 20 workers, half under 30.

Three years ago, when Robertson was 50, the firm set up its only retirement plan: a "comparability plan." It is a customized profit-sharing plan that, like Underwood's, allows older employees to defer a higher percentage of compensation from taxes than younger workers can.

The plan was set up through the Principal Financial Group in Des Moines, Iowa—the largest provider of small-business retirement plans in the U.S.

"We wanted to reward those people who had been long-term employees who haven't had anything in the past," Robertson says.

than a traditional defined-benefit plan, in large part because the employer match is discretionary and typically represents less than half of the amount employees accumulate. There is less red tape, and administrative and investment costs are typically paid by the plan, not the company.

For workers, 401(k)s offer an account they can watch grow, self-direction of investments, and the option of tax-free loans for various purposes (such as the purchase of a home or unexpected medical bills). Because 401(k) administrative and investment costs are usually paid out of the plan's assets, workers' earnings are reduced. Under traditional defined-benefit plans, the employers pay administrative costs.

Profit-Sharing

For small businesses, profit-sharing plans offer the greatest flexibility in contributions and simplicity of administration. The employer can choose to make no contributions to the plan or to make contributions based on a predetermined formula that may take into account company profits for the year.

Contributions may be invested in stocks, bonds, or cash equivalents, depending on the choices opted for by the employer. The contribution in a given year may not exceed 15 percent of the compensation of all plan participants.

Two SIMPLE Options

These salary-deferral plans constitute new options for companies with 100 or fewer workers and are in the form of either 401(k) or IRA products. SIMPLE options enable small businesses to avoid almost all the bureaucratic headaches and administrative costs of other retirement plans, but they require the employer to match as much as 3 percent of each participant's compensation up to $6,000 annually. Workers can contribute up to $6,000 a year.

SIMPLEs replaced the discontinued Salary Reduction Simplified Employee Pension plans (SAR-SEPs), which until this year were an option for small firms. Companies with SIMPLEs can have no other type of retirement plan. Pension providers report that almost all SIMPLE plans are SIMPLE IRAs, since SIMPLE 401(k)s generally cost more than regular small-business 401(k) plans as a result of the mandated employer-paid match.

SEPs

Simplified Employee Pensions, or SEPs, are essentially company-funded IRAs for each employee. Unlike personal IRAs, which enable workers to defer taxes on only $2,000 annually, SEPs permit a company to contribute up to 15 percent of a worker's pay (up to $24,000 a year) to a tax-deferred account. Annual contributions are not required, and paperwork is minimal. These are popular with self-employed workers.

Keoghs

These plans are designed for employees of unincorporated businesses or the self-employed, and they are funded by the employer. They also can take various forms (such as a defined-benefit plan), although they most often are structured as a defined-contribution plan. They permit up to 25 percent of pay (up to $30,000) to be deferred from taxes each year, and they appeal to many sole proprietors and small businesses with high incomes. Keoghs permit higher contributions than SEPs but are more difficult and costly to set up and administer.

Combination/Hybrid Plans

These involve variations or customized features of the major options listed above. Pension specialists say these types of plans often are used to meet specific needs, such as providing more-generous benefits to recruit hard-to-find talent (in a high-tech field, for instance) or allowing older business owners to make higher-rate "catch-up" contributions to a retirement plan. (See the article on Page 14.)

Although 401(k) plans are the best-known way to provide low-cost retirement benefits to workers, less familiar are the emerging risks and potential liabilities that 401(k)s can present.

First is the near certainty of new government regulations. After several highly publicized horror stories about mismanagement and fraud in 401(k) plans, the U.S. Department of Labor issued new rules early this year restricting employers' control over employee contributions.

Among other requirements, employers must now deposit their workers' 401(k) contributions within 15 business days after the end of the month in which the salary is deferred.

Additional "pension security" measures that would impose new requirements on businesses that sponsor 401(k) plans are brewing in Congress and in the Clinton administration. The bipartisan political pressure for such measures appears to be in response to the explosive growth in 401(k) savings: Total assets will hit an estimated $925 billion this year, up from $190 billion 10 years ago, according to Access Research. Assets in 401(k) plans have a projected annual growth rate of about 14 percent through 2002. (See the chart on Page 15.)

A less certain but still serious risk is

Hybrid Plans

So-called hybrid pension plans often contain features of both defined-benefit and defined-contribution plans. Here are some hybrid plans used by small-business owners and employees to maximize their tax-deferred retirement savings. Descriptions are from Kemper Retirement Plans, part of Kemper Funds of Chicago.

Age-Weighted and Cross-Tested Plans. These are profit-sharing plans in which contributions (as a percentage of compensation) to employees' accounts vary according to age, with older employees favored. The allocation formula can also include the employee's years of service. These plans work best when there are large age or salary differences in a company's work force.

Cash-Balance Plan. This combines features common to both defined-benefit and defined-contribution plans. Benefits are guaranteed and funded by the employer, but the employees can watch their individual account balances grow, much as they can with a defined-contribution plan. From the employee's perspective, a cash-balance plan is much like a defined-contribution plan, but the employer bears the investment risk.

Floor-Offset Plan. This combines features of a defined-benefit plan—which guarantees the employee a fixed benefit at retirement—and a defined-contribution plan. It guarantees that the total benefit of the two plans will not fall below the level, or "floor," set by the defined-benefit portion of the plan.

Money-Purchase Plan. A defined-contribution plan with mandatory—not discretionary—employer contributions. The plan contribution usually is calculated as a percentage of the employee's compensation, up to a maximum of 25 percent of salary. The ultimate benefit is the total accumulation of employer contributions plus investment earnings. Money-purchase plans are often paired with 401(k) or profit-sharing plans.

Target-Benefit Plan. A variation of a cross-tested plan, it sets up a target amount for a company-funded lifetime pension. While there is no guarantee that the target will be reached, the plan establishes the employer's contribution at a rate designed to meet the target benefit. A target-benefit plan allows older workers to receive higher contributions than younger employees receive.

the possibility of lawsuits from employees—especially if there's a meltdown in the stock market and millions of retirement-plan nest eggs get fried.

The largely untested legal question involves Section 404(c) of the Employee Retirement Income Security Act (ERISA), which protects plan sponsors from liability for losses in a 401(k) plan if three criteria are met: Participating workers exercise independent control over their accounts, a broad range of investment options is offered, and sufficient financial information is disclosed and communicated to workers.

David Wray, president of the Chicago-based Profit Sharing/401(k) Council of America, a business trade group, says the risk of lawsuits from disgruntled employees is slight if employers provide "the right disclosure, investment education, and choice of funds." But he warns: "Employers have to pay attention to this stuff."

Another potential source of employee litigation is allegedly excessive administrative fees charged by some 401(k) providers. An employer that sponsors a 401(k) is legally considered the trustee of the plan's assets even if it doesn't manage the plan, and a company that fails to monitor the provider's administrative costs could be asking for trouble, experts say.

Finally, some pension specialists warn that Internal Revenue Service audits of 401(k)s for compliance with federal regulations are increasingly likely as billions of dollars continue to pour into the tax-deferred accounts. The IRS is centralizing its process for approving pension plans in the agency's Cincinnati office. The reorganization is expected to free up IRS field offices to sharpen their focus on 401(k) compliance.

Carol Gold, director of the IRS's Employee Plan Division, says her staff is nearing the end of a two-year audit "sampling" of 550 401(k) plans of all sizes from across the country to determine their level of tax compliance.

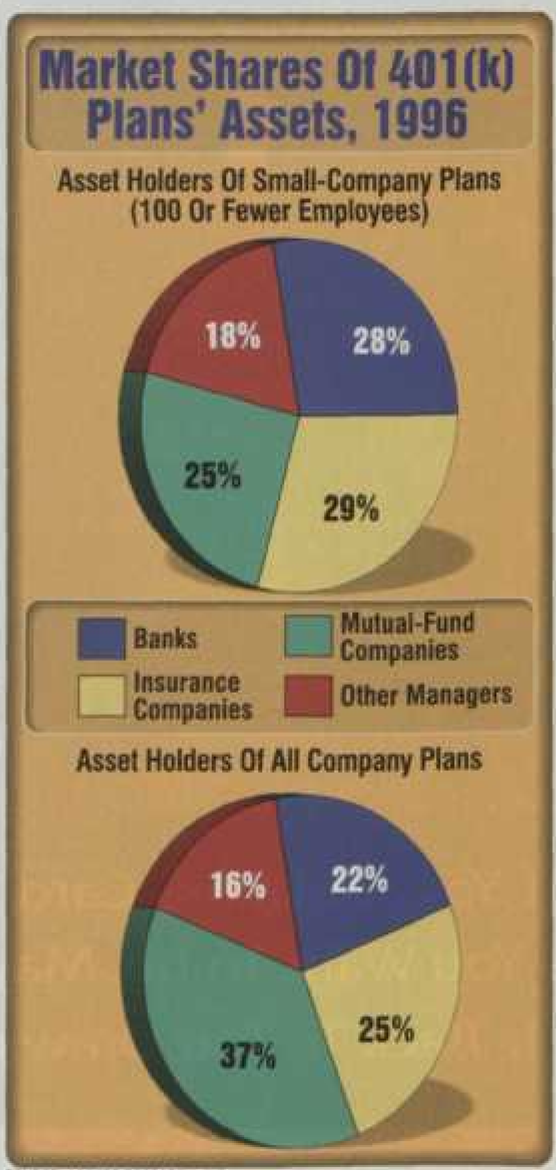
While she would not comment on findings so far, she noted that the IRS would expand its audits "only if noncompliance is a matter of people ignoring the rules."

But some observers expect the worst: "We can look forward to a lot of IRS activity in the 401(k) area in coming years," says Pat Byrnes, president of Actuarial Consultants Inc. and a past president of the American Society of Pension Actuaries.

Some 401(k) risks are giving rise to new insurance products. In March, Fiduciary and Benefit Investors Corp. in Pearl River, N.Y., unveiled a 401(k) surety bond that covers plan sponsors and providers for theft or misappropriation of funds up to $25 million per plan. Paul McKeon, president of FBIC, says the bond is the first of its kind.

Meanwhile, the small-business sector has been targeted for special attention by the companies that market 401(k)s. The reason: Most large and medium-sized companies in the United States already have 401(k) plans, while most small businesses do not.

About 80 percent of businesses with 1,000 to 5,000 workers offer 401(k) plans, compared with only 25 percent of businesses with 50 to 100 workers, according to Access Research.



SOURCE: ACCESS RESEARCH, INC.

Last year, mutual-fund companies dominated the 401(k) market; they held 37 percent of the assets, having taken significant market share away from banks and insurance companies. Among companies with fewer than 100 workers, however, insurance companies and banks still have a market edge. (See the chart on this page.)

That has prompted the big mutual-fund companies to create retirement plans designed for small businesses. For instance, Fidelity Investments in Boston, the nation's largest provider of defined-contribution retirement plans, last year created an alliance with the U.S. Chamber of Commerce to offer low-cost retirement plans to U.S. Chamber members, most of which are small businesses.

The U.S. CHAMBERplan for Retirement offers Chamber members discounted management fees and access to Fidelity's wide range of retirement products, including 401(k)s, SEPs, SIMPLEs, and Keoghs, as well as investment-management and record-keeping services.

The Vanguard Group of Valley Forge, Pa., the next-largest 401(k) provider behind Fidelity, offers a small-business product called the Target Program For Smaller Plans. T. Rowe Price Associates, a Baltimore-based mutual-fund company and the nation's 10th-largest 401(k) provider, has designed a small-business product called the 401(k) Century Plan.

Insurers Stake A Position

Not to be outdone by the mutual-fund companies, insurers have created their own plans targeted at small companies. Massachusetts Mutual Life Insurance Co. (known as MassMutual—the Blue Chip Company) of Springfield, Mass., has a program called Retirement Matters Accumulation Product (RMAP). Beverly Holmes, second vice president of pension management for MassMutual, notes that RMAP focuses exclusively on providing retirement plans and services to small, growing businesses.

Like other big providers, MassMutual offers "bundled" retirement services of mutual funds, insurance products, record keeping and administration, and employee communications material. The company provides phone access to accounts and is creating an Internet site so participants can direct investments by computer.

For small businesses in the market for a retirement plan, the competition means they should be able to find a variety of choices, low fees, and full-service options. The size of a firm's retirement assets will affect the options, however: Very small accounts are likely to be directed into IRA products because administrative costs are minimal, while bigger accounts can afford

more-expensive plans such as a 401(k) or a customized profit-sharing plan.

What should small-business owners look for when setting up or switching a retirement plan? Owners of very small businesses who want a basic retirement plan for themselves and their workers may find a SIMPLE IRA a good option. Somewhat larger businesses may want to respond to employees' desire for higher savings limits and loan options with a 401(k) plan.

Sole proprietors are likely to be interested in a SEP. Owners or executives of established businesses who want to put away as much tax-deferred savings as possible should investigate a customized profit-sharing plan. And if you have the resources, you can have more than one plan, provided none of them is a SIMPLE plan.

The Clinton administration in June kicked off an educational campaign aimed at persuading more small businesses to pro-

Comparing Pension Plans

Lower Cost/Less Administration ⟷ Higher Cost/More Administration

	SEP-IRA	KEOGH	SIMPLE-IRA	401(k)
Eligibility	Any self-employed individual, business owner, or individual who earns any self-employed income.	Any self-employed individual, business owner, or individual who earns any self-employed income.	Businesses with 100 or fewer eligible employees.	Any type of public or private company; typical for companies with 25 or more employees.
Key Advantages	Easy to set up and maintain.	Highest contribution maximums among types of plans in this table.	Salary-reduction plan with minimal administrative costs.	Features such as loans for participants and vesting for employer contributions.
Who Has Funding Responsibility	Only employer may contribute.	Generally, only the employer may contribute.	Elective employee salary deferrals and employer contributions.	Primarily employee contributions and optional employer contributions.
Annual Contribution Per Participant	Up to 15% of compensation, up to a maximum of $24,000 in 1997.	Up to 25% of compensation, up to a maximum of $30,000.	**Employee:** By law, up to $6,000 per year (indexed annually for inflation). **Employer:** Either match contributions up to 3% of employee's compensation (maximum $6,000 a year, and the percentage can be reduced to as low as 1% in any two out of five years) or contribute 2% of each eligible employee's compensation, up to $3,200 a year.	**Employee:** Depending on plan design, could be up to 20% of compensation, to a maximum of $9,500 (indexed for inflation). **Employer/Employee Combined:** Up to 25% of compensation, up to a $30,000 maximum.
Access To Assets	Withdrawals permitted at any time. Withdrawals are subject to current federal income taxes and a possible 10% penalty (if the participant is under age 59½).	Withdrawals not allowed until a "trigger" event occurs. A 10% penalty may apply if you are under age 59½, or under age 55 and separated from service.	Withdrawals allowed at any time. If employee is under age 59½, withdrawals generally may be subject to a 25% penalty if taken within the first two years of participation and a possible 10% penalty if taken after that period.	Cannot take withdrawals from plan until a "trigger" event occurs. Plan may offer loan provisions and allow withdrawals in certain hardship situations (hardship withdrawals may be subject to a 10% penalty if participant is under age 59½).
Vesting Of Contributions	Immediate.	Employer may offer vesting schedules.	Employee and employer contributions vested immediately.	Employee contributions vested immediately; different vesting schedules available for employer contributions.
Administrative Responsibilities	No employer tax filings required.	Employer must file IRS Form 5500 annually.	No employer tax filings required.	Form 5500 and special IRS testing required to ensure plan does not discriminate in favor of highly compensated employees.

SOURCE: FIDELITY INVESTMENTS

vide at least some form of retirement benefit for their workers. Small businesses can get free information on retirement plans from the U.S. Labor Department at 1-800-998-7542 or by visiting *www.dol.gov* on the Internet.

Whatever the choice, offering a retirement plan is increasingly important to companies that want to attract skilled workers.

Jeanette LeBlanc, manager of small-business retirement plans for T. Rowe Price, says, "It's a more competitive environment. If employers are going to retain good employees, they're going to have to offer this benefit."

At Annan Run, Linda Koreny considered retirement savings to be so important that several years ago she held an after-hours meeting with her employees to teach them about IRAs and the value of tax-free compound interest. When SIMPLEs became available this year, she held another staff meeting to explain the program, and all but one employee signed up.

"Why did I set this up? Because it empowers people to become economically independent," Koreny says. "That's why this program is such a good thing: It helps people and gives them a vehicle to achieve that goal. This program is important to me."

With more options than ever, more small-business owners may move to establish retirement plans for their workers—if the government doesn't increase the complexity and cost of doing so. NB

To order a reprint of this story, see Page 66. For a fax copy, see Page 41.

Pension Changes Simmering In Congress

Even though burdensome regulations are generally acknowledged to be a key obstacle to small-business pension coverage, Congress is considering various changes that would add even more restrictions on private retirement plans.

Some of the proposals would result in higher costs and more complexities for the new SIMPLE retirement plans, which Congress approved just last year to make it easier for small firms to offer pension plans to their employees. Other proposed changes would add to small businesses' 401(k) costs by increasing paperwork and retirement-plan audits.

In the House, Ways and Means Committee Chairman Bill Archer, R-Texas, is interested in expanding the use of individual retirement accounts to let individuals increase their tax-deferred retirement savings. "Outside of that, I'm not sure what we'll be able to do this year" on pension legislation, Archer says.


PHOTO: T. MICHAEL KEZA

But plenty of other members of Congress have more-ambitious and partisan plans, most of which would be costly to business. Democrats in the House and Senate have introduced a comprehensive package of pension bills, and Senate Republicans are working up their own plan. The business community is crafting alternative proposals.

The various proposals would approach pension matters very differently, but some common terms emerge:

■ **Pension Security.** Under both the Democratic and Republican bills, this is likely to translate into additional and expensive reporting rules. Democrats would go further with disclosure and auditing requirements, and both parties would limit the amount that a 401(k) plan could invest in company stock or employer-owned real estate.

■ **Pension Portability.** Democrats and Republicans are interested in easing the rules for rolling over accounts between different kinds of retirement plans. Democrats also would like to shorten to three years the current five-year vesting period for the employer 401(k) match.

■ **Pension Fairness.** As defined by Democrats, this would include raising by one percentage point the mandatory matching contribution that small employers would have to make to their workers' SIMPLE accounts. Reflecting the growing political clout of women, both political parties have plans to help women catch up on retirement savings missed during years when they were out of the work force for family reasons.

■ **Expanded Coverage and Simplification.** Democrats would give employers with 50 or fewer workers a $500 tax credit to defray the costs of establishing a pension plan. They also have proposals that would favor labor unions' pensions in various ways. Republicans would create a new, simpler defined-benefit plan for small employers. Republicans and Democrats would cut certain reporting requirements.

In the meantime, a diverse group of businesses, insurance companies, and pension-plan providers, called the Retirement Savings Network, is developing pension-simplification proposals.

A subgroup, whose members include the U.S. Chamber of Commerce, is focusing on repeal of the "top-heavy" rules, which impose expensive and complex regulations on businesses where 60 percent or more of a retirement plan's assets are held by "key employees."

"If you have 10 or fewer employees, chances are you'll inevitably become top-heavy under the rules," notes David Kemps, the Chamber's pension-policy specialist. "These rules are one of the largest impediments to the formation of retirement plans within the small-business community."

Other major items on the small-business-pension wish list include:

■ Higher contribution limits and discretionary contributions under SIMPLE plans.

■ Parity in 401(k) plans for owner-employees to allow them to receive matching contributions and limited-purpose loans from their plans.

■ A reduction in the Pension Benefit Guaranty Corp.'s insurance premiums for employers that have healthy pension plans.

■ Creation of a new defined-benefit plan for small employers.

Kemps says Congress may include some changes in pension law as part of the tax bill connected with the fiscal 1998 budget legislation.

TRANSPORTATION

Much Is At Stake In Highway Bill

As critical needs mount, communities hope that Congress will boost transportation funding for the next six years.

By Steve Bates

Motorists navigating the four-level interchange that mixes traffic from Interstate Highways 43, 94, and 794 in the heart of downtown Milwaukee are familiar with the rush-hour congestion and road work that can shut down driving lanes. But what they don't see could be even more disturbing.

The girders put in place more than 30 years ago to support the roadbeds have been crumbling, slowly but surely, to the point that the entire interchange must be rebuilt.

There's no room for temporary lanes or to expand the interchange, so the reconstruction must be done in stages to allow local and interstate traffic to continue to squeeze through this strategic nexus.

The interchange must be rebuilt soon or it will be deemed unsafe for heavy vehicles. "It's in terminal condition," says Tom Walker, executive director of the Wisconsin Road Builders Association.

"It's so crucial to the economic vitality of the state," says Les Fafard, director of the state transportation department's southeastern district. Yet almost no one can say where state officials will find the $500 million or more needed to rebuild the interchange. The state's budget for building and maintaining roads throughout all of Wisconsin is about $450 million a year, and "right now we don't have one dollar programmed" for the interchange, says Fafard.

The looming crisis isn't unique to Wisconsin. Critical road- and bridge-replacement projects exist in every state, and the price tags for some are overwhelming.

In Philadelphia, a major interchange on I-95 urgently needs replacement. In the Salt Lake City area, a 35-year-old stretch of I-15 is slated for extensive work. And on the southern edge of Washington, D.C., the Woodrow Wilson Bridge—a crucial segment of I-95—is in a near-desperate state of disrepair. These projects are forecast to cost $1 billion to $2 billion each.

The people most concerned about repairs—government officials, business leaders, and motorists—are pinning their hopes for substantial funding increases on reauthorization of the six-year federal highway law that will expire Sept. 30.

Enacted in 1991, the Intermodal Surface Transportation Efficiency Act (ISTEA), nicknamed "Ice Tea," provided about $26 billion a year through fiscal 1997 for transportation projects. But the law shifted billions of those dollars to pollution-reduction programs, including mass transit, and to nontransportation uses such as renovation of historic buildings.

At The Crossroads

Known as the Marquette Interchange because of its proximity to the university in downtown Milwaukee, the aging, four-level nexus of key Interstate Highways 94 and 43 and the local spur I-794 is in dire need of money for reconstruction.

ILLUSTRATION: GEORGIA LEIGH MCDONALD

Many of the key features and implications of the legislation were not well-known among the public and state and local government officials until after it was signed into law. And much of the money authorized by ISTEA was left unspent; on average, Congress appropriated about $20 billion for highway and bridge projects each year.

This year, key players in the political battle over funds—including environmentalists, state and local officials, highway construction lobbyists, and business leaders—know what is at stake for the next six years and perhaps beyond. It is a clear opportunity to set national transportation priorities, to repair aging infrastructure, and to put Americans to work.

But it is far from clear what will emerge when the legislative wrangling is completed.

A Huge, Unmet Need

Twenty billion dollars sounds like a lot of money—and it is, say even some of those who are seeking more funding. But the needs are far greater, according to the Federal Highway Administration (FHWA).

Agency officials recently estimated that total spending on transportation infrastructure, including federal, state, and local funds, totals almost $35 billion a year.

However, the country needs about $55 billion a year just to maintain roads and bridges in their present condition, and it needs about $74 billion annually for many years to improve them to satisfactory condition, the agency says.

About one-third of the nation's bridges are deficient or structurally obsolete, and about 60 percent of major highways are in fair, mediocre, or poor condition, according to the FHWA.

President Clinton's proposed successor to ISTEA—the National Economic Crossroads Transportation Efficiency Act, or NEXTEA—would keep annual spending at about $20 billion. In unveiling the measure in March, Clinton said, "This bill will literally be our bridge to the 21st century."

Some organizations, including the Washington-based American Highway Users Alliance, say the measure doesn't go far enough and have proposed spending as much as $32 billion a year to catch up with needs. Clinton's proposal could lead one to believe that "the federal government has lost sight of its priorities," says Bill Fay, president of the alliance.

The debate represents far more than just a Washington-insider issue for Milwaukee-area officials, residents, and business leaders struggling with the fate of their downtown interchange. The crossroads provides crucial commercial links with cities such as Chicago and Minneapolis, and it handles a huge amount of local traffic—more than 250,000 total vehicles on a typical day.

"We have a concern about our employees, finding alternate routes, changing their commuting" because of the threat to the interchange and a deteriorating stretch of I-94 immediately to the west, says Shannon O'Brien, employment manager of Quarles & Brady, a Milwaukee-based law firm. "It's going to affect the businesses downtown."

Tom Luljak, a spokesman for Blue Cross and Blue Shield in Milwaukee, which has about 1,300 employees in the region, cites "a domino effect" that could occur if the interchange is not improved. "If one group of businesses falters because the infrastructure is not sufficiently reinforced, everyone is a loser."

Whatever legislation succeeds ISTEA, its impact on businesses nationwide will be enormous as well. For each $1 billion spent on transportation construction projects, more than 42,000 jobs are created, says the Highway Users Alliance.

Some studies indicate that such spending benefits many businesses. "Virtually every industry gains when government invests in infrastructure," says Richard Mudge, an economist with Apogee Research in Bethesda, Md. "The economic value of infrastructure—transportation in general—has been taken for granted for too long."

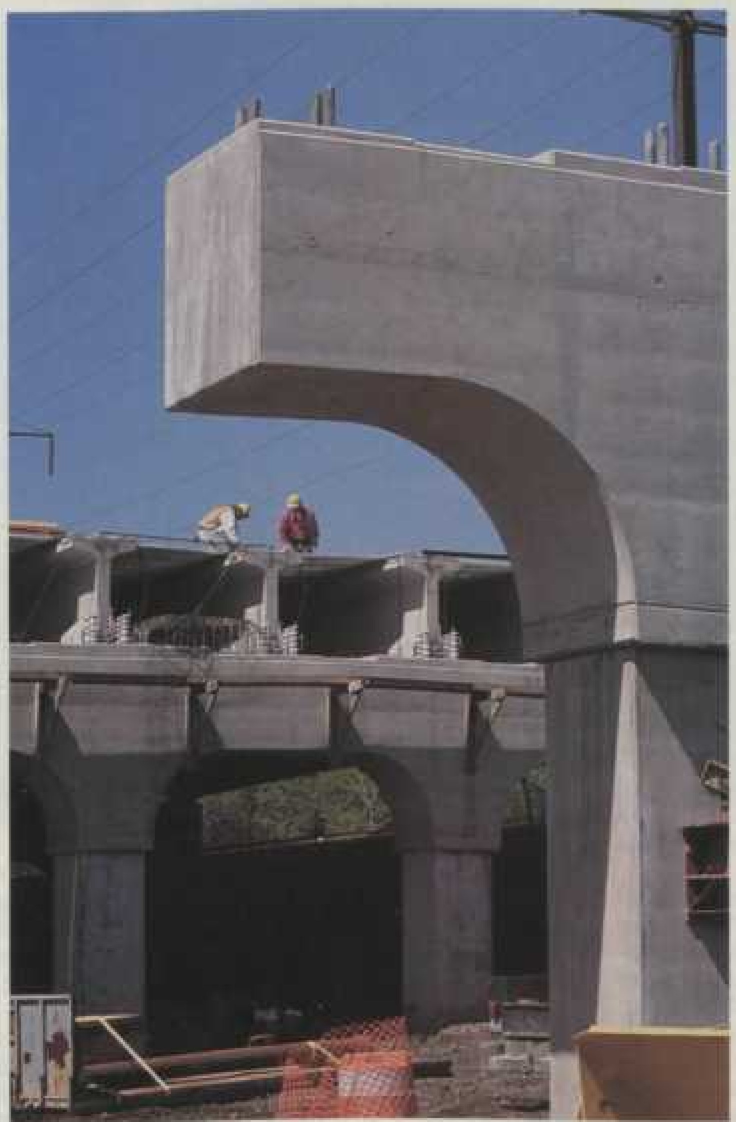


PHOTO: ©TOM SOBOLIK—BLACK STAR

Workers build *a highway overpass near Newark International Airport in New Jersey. Many similar projects could go unfunded if Congress does not boost federal transportation spending this year.*

Budget-Balancing Pressures

At least three speed bumps are in the way of passage of the next six-year highway bill. One is the tug-of-war between those who favor spending as much as possible on repairing and widening roads and bridges and those who favor continued diversions of billions of dollars per year to other uses, including pollution-control projects.

The second obstacle is that some state governments get back less federal highway money than the states' motorists pay each year through fuel taxes, while other states get back far more than they pay in.

The competing pressures to spend more on transportation construction and balance the federal budget at the same time constitute the third hurdle.

Six years ago, environmentalists and their supporters in Congress scored a coup by getting mandates included in ISTEA that linked highway spending to clean-air projects financed with fuel-tax dollars.

This year, some lobbyists on the other side of the transportation-funding debate oppose spending Highway Trust Fund money on these projects, which include computerizing traffic signals and building bicycle trails. But environmentalists cite the cause-and-effect connection between motor vehicles and urban pollution as a basis for preserving, if not expanding, their share of federal transportation money for the coming six years.

In a Senate subcommittee hearing on the matter in March, acting FHWA Administrator Jane Garvey tried to set the tone for the rewriting of ISTEA when she urged legislators: "Tune it; don't toss it."

The arcane formula for disbursing federal transportation money to the states was established decades ago, and efforts to amend it in Congress always cause sparks to fly.

In January, Senate Majority Leader Trent Lott, R-Miss., told a breakfast gathering of business people at the U.S. Chamber of Commerce in Washington that he won't be able to face his constituents if his state continues to be shortchanged. He said of the pending battle: "It won't be partisan. It won't be regional or parochial. But it will be bloody."

U.S. Transportation Secretary Rod Slater told a House subcommittee this spring that the fight over the disbursement formula shouldn't overshadow important policy decisions, but he added: "We are trying to grow the pie."

In 1993, Congress approved and

Clinton signed a measure increasing the federal tax on each gallon of gas to 18.3 cents from 14 cents. Revenue from the 4.3-cent increase goes to the general fund to reduce the annual federal deficit—at least on paper.

Revenues from the remaining 14 cents on each gallon, from 18 cents per gallon of the tax on diesel fuel, and from other highway-user fees go to the highway and mass-transit spending accounts of the Highway Trust Fund. On a typical day, Americans pump about $70 million into the fund. However, Congress has left some of this money unspent.

Some congressional leaders of both political parties have called for continuing that policy as part of the goal of balancing the budget in five years. During that time, the unspent balance in the Highway Trust Fund could climb from about $24 billion to approximately $40 billion, according to congressional staffers.

Options For Increases

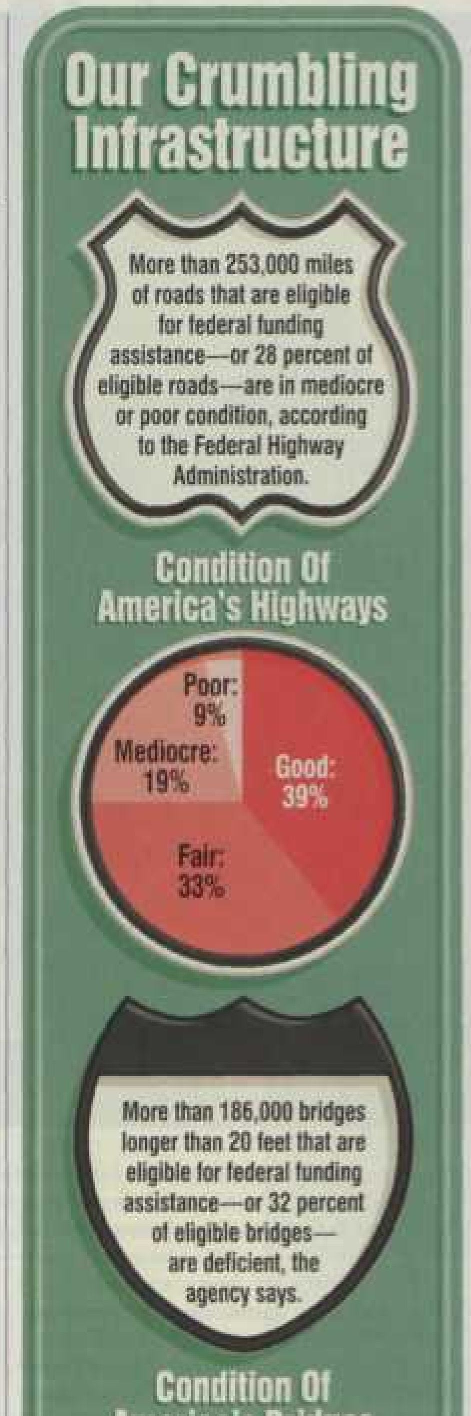
Most proposals to boost highway spending call for using substantially more of the trust-fund money, ending the diversion of fuel taxes for deficit reduction, or doing both. Either change could free up roughly 20 percent more money for roads and bridges each year.

"Congress must keep its commitment to the American people to use their transportation taxes to fix transportation problems. There is plenty of money to do the work," said Michael S. Starnes, chairman of the U.S. Chamber, at a recent Capitol Hill news conference. The Chamber, which favors using all trust-fund money for transportation improvments, joined a wide array of other organizations to form the Coalition for TRUST: Transportation Revenues Used Solely for Transportation.

T. Peter Ruane, president of the Washington-based American Road & Transportation Builders Association, a member of TRUST, agrees with Starnes. "Let us spend what we have [in fuel taxes]. That's all we're asking." Ruane adds that even a modest spending increase could improve dangerous roads and bridges and save thousands of lives a year—without raising taxes.

Ed Nyland, president of George Harms Construction Co., a highway contractor in Farmingdale, N.J., concurs: "I get offended when I go to the gas pump and it's not going to the purpose it was approved for."

Rep. Bud Shuster, R-Pa., chairman of the House Transportation and Infrastructure Committee, had more than enough co-sponsors this spring to win House passage of a bill that would remove the Highway Trust Fund from the federal budget for accounting purposes and that potentially would allow much higher spending levels. It was not clear if the Senate would take up the measure.



Some critics of highway spending say that many proposed road and bridge projects aren't needed. "Trying to solve congestion by widening highways is no more effective than trying to curb obesity by tightening our belts," says Michael Replogle, an official with the Washington-based Environmental Defense Fund. "We have got to move beyond the pork-barrel mentality about transportation priorities."

Hank Dittmar, executive director of the Surface Transportation Policy Project, a Washington-based coalition of environmental groups, says the United States has "made considerable progress through the Clean Air Act in decreasing the amount of pollution automobiles emit per mile." But he adds, "The continuing growth in driving is threatening to wipe out these gains."

A host of other issues in the administration's NEXTEA proposal have taken a back seat during the debate. Clinton has proposed more emphasis on road-safety programs, including a crackdown on aggressive drivers; money to help welfare recipients get to job sites; and more power and flexibility for local governments to spend federal dollars.

Flexibility is a big issue in some communities. "These regulations [under ISTEA] put a great burden on cities," says J. Kent Rogers, executive director of the regional Council of Governments for several communities in the Shreveport, La., area. He says that building a bike path with ISTEA money required dealing with almost as much red tape as it would have taken to construct a freeway.

"Doing a mile-and-a-half sidewalk took almost four years"—most of it because of the slow pace of approvals from the federal government, laments Rogers.

Ultimately, Congress will have to decide how much importance it places on fixing deteriorating roads and bridges such as the decrepit Milwaukee interchange. Bill Peterson, vice president of the Washington-based Construction Industry Manufacturers Association, says business "must lead the way" in persuading lawmakers to boost transportation spending. "These are the people who understand investment."

If Congress keeps transportation spending at about $20 billion a year, "it will cause probably a much more expensive fix later on," says Peterson. "That would be a very bad decision for all our interests." NB

Small Business Financial Adviser

Limited partnerships for families; taxing frequent-flier miles; early-retirement pitfall; investing abroad.

Keeping Assets In The Family

By Marsha Bertrand

Each time one of Bob Johnson's six children got married, Johnson bought a house to rent to the newlyweds. Eventually, Johnson, a business owner in California's San Fernando Valley, owned six houses with paid-up mortgages. Because real-estate values had escalated over the years during which he had bought the properties, he had a substantial real-estate portfolio.

Johnson (not his real name) also had a federal estate-tax problem because the houses altogether were valued in excess of the individual $600,000 estate-tax exemption. (Tax rates of 37 to 55 percent are applied by bracket to the value of an individual's estate exceeding $600,000; a married couple's combined exemption is $1.2 million.)

To reduce his estate-tax liability, Johnson considered transferring ownership of the houses to his children. But that would have created a gift-tax problem. By law, a person can give anyone $10,000 ($20,000 if the gift is from a married couple) in any calendar year without paying a gift tax. But any amount above the maximum is subject to the gift tax, which starts at 37 percent.

Another reason—besides the potential taxes—that Johnson declined to give away the properties was his desire to retain control of them; he was using the rental income for living expenses.

A Family Plan

To get help, Johnson turned to Lawrence F. Meyer, a partner in the law firm of Greenwald, Hoffman & Meyer in Glendale, Calif. Meyer solved Johnson's problem by creating a family limited partnership for each property. Such partnerships are a popular way for parents to transfer assets to their children while maintaining control over the assets.

Under a typical family limited partnership, the parents (or a single parent) retain a general partnership interest in the property—as little as 1 percent—and give limited-partnership interests to their children over a number of years. The general partners retain complete control over the assets in the partnership, and no management authority is given to the limited partner or partners.

"A limited partnership has greater structural flexibility than a corporation," says Meyer. "If I simply deed 20 percent of a property to my daughter, she has a number of rights to go along with owning that 20 percent interest, whereas if I give her a 20 percent limited-partnership interest, I remain in control."

Gradual Giving

In Johnson's case, Meyer created family limited partnerships that included the six homes, making Johnson the general partner and the children limited partners. Each year Johnson gave each child a 10 percent limited-partnership interest in the child's home.

As the children eventually came to own their homes, Johnson maintained control, received rental income, and solved his estate-planning problem by slowly gifting the homes to his children.

Although this procedure doesn't eliminate gift taxes when the partnership shares exceed $10,000 annually, it can trim the gift tax significantly. In fact, the reduced taxation has propelled family limited partnerships to the forefront of estate-planning techniques.

Their newfound popularity can be traced to a 1993 Internal Revenue Service ruling that, for the first time, allowed substantial valuation discounts for property passed between family members within family limited partnerships.

Here's why: The IRS conceded that those who hold minority shares in a family limited partnership exercise no control and have no market for their shares. Accordingly, for gift-tax purposes, a minority stake is priced typically 20 to 50 percent less than full market value to reflect the asset's lack of marketability and the limited partners' lack of control.

"If you have a building worth $1 million, you can sell it for $1 million," says Meyer. "But if you take 25 percent of that $1 million building and try and sell it, you probably wouldn't get $250,000. No one would be willing to buy a portion of the building,

so you'd have to discount it. That discount might be 20 percent."

A Structural Division

Consider the example of two sisters, Mary Simon and Jane Anderson (not their real names) of San Francisco. Each inherited 50 percent of an industrial building in San Bernardino valued at $1 million. They decided to pass ownership of the property to their children. But they knew that, because of the value of their respective estates, giving away a $500,000 asset would trigger a gift-tax bill for each sister of at least $185,000. To avoid that, they created a family limited partnership.

Each sister retained a 5 percent general-partnership interest and a 45 percent limited-partnership interest. When Simon and Anderson transfer limited-partnership interests to their children, they can discount the property for gift-tax purposes. In this instance, a 20 percent discount would reduce the taxable value of a 25 percent share in their jointly owned building to $200,000 from $250,000, saving $18,500 in taxes at a 37 percent rate.

Downsides

Of course, there can be disadvantages in using family limited partnerships. "If you decide you don't like one of the limited partners, there's not a great deal you can do to get them out," says Steve Merdinger, a financial planner with Financial Strategy Network, a registered representative of CIGNA Financial Advisors in Chicago. "They have an ownership interest, which you'd have to buy back from them. It limits your flexibility a little bit."

Cost can also be a barrier. Initial legal and appraisal fees are likely to exceed $10,000. And each time you gift limited partnership shares, the asset has to be professionally appraised, which can be expensive.

The concept doesn't work well for all assets, either. It's effective for real estate or companies in which capital assets are the essence of the business, but it isn't suited to personal-services companies whose income depends on the activity of the owner, such as consulting firms.

"Where I use it is if I have an asset that will possibly appreciate significantly in the future, where control is an issue, and where the estate will be taxable," says Merdinger.

Moreover, the IRS recently signaled its interest in reviewing family limited partnerships for excessive valuation discounts.

It's important to remember that family limited partnerships involve complicated documents that need to be coordinated with the rest of a person's estate documents. Creating one requires the help of an experienced attorney. "If a family limited partnership is set up wrong, you can have some pretty disastrous results," says Meyer. "You can wind up making a gift that gets thrown back into your estate."

A family limited partnership can help you accomplish your estate-planning goals, but it's a technical strategy with plenty of rules and regulations. The key is to have an experienced person create the partnership so you can rest assured that your assets are being distributed in the most efficient and cost-effective manner possible. ■

Marsha Bertrand is a business writer in Orlando, Fla. Her book, A Woman's Guide To Savvy Investing, *will be published in October by AMACOM Books.*

IRS RULES

Choose Your Firm's Tax Classification

In a move widely applauded by tax professionals, the Internal Revenue Service has greatly simplified the way limited-liability companies (LLCs) and partnerships are classified for tax purposes.

The rule change, effective this past Jan. 1, means that LLCs and partnerships no longer have to fear being reclassified as corporations and billed for corporate taxes.

Before the change, the rules governing tax classification of a business were among the most complex in tax law. Lawyers setting up LLCs and partnerships had to be very careful in drafting company operating agreements to avoid practices that would cause the IRS to treat the firms as corporations.

Essentially, LLCs and partnerships could not have more than two of the four following corporate characteristics: limited liability, centralized management, "continuity of life" (the company is difficult to dissolve), and unrestrained transferability of a partner's interests.

To avoid satisfying the second, third, and fourth characteristics of corporations, LLCs typically had to avoid using management committees, had to be easy to dissolve, and had to bar sale or transfer of an owner's interest without consent of the other partners. Under the rule change, LLCs may now have management committees, may be structured to operate in perpetuity, and may choose not to restrict transfer of ownership interests.

Before the rule change, lawyers frequently sought so-called private-letter rulings from the IRS as assurance that a client's LLC would not be reclassified as a corporation, says tax lawyer Susan Jacksack, editor of the recently published *Start, Run & Grow A Successful Small Business* (CCH Inc., $45.95). "Now LLCs are immune from being reclassified, and they may operate with all four corporate characteristics," says Jacksack.

> **"Now LLCs are immune from being reclassified, and they may operate with all four corporate characteristics."**
>
> —Tax Lawyer Susan Jacksack

The change makes being classified as an LLC—already the fastest-growing form of business organization—all the more attractive. LLCs shield their owners from liability, just as a corporation does. But as with a partnership, LLC income is taxed only once—at the owner level. (A corporation's income is subject to taxation first at the corporate level and then—if it is paid out as dividends—at the individual level.)

Moreover, the new regulation clears the way for sole proprietors to operate as single-member LLCs, thus for the first time giving individuals the same liability shield previously available only to other forms of business organization. Some states already permit one-member LLCs, and more are expected to do so.

New LLCs or partnerships that want to be treated as partnerships for tax purposes should file IRS Form 8832 to state their intentions. Companies that were in existence Jan. 1 do not have to file the form if they do not want to change their current tax classification.

—Albert B. Ellentuck

The author is counsel to the Washington, D.C., law firm of King & Nordlinger.

INCOME TAXES

Fly Now, Pay Later?

You may remember the commotion in 1995 over the tax status of frequent-flier miles. Because a company's policy on air-fare reimbursements stated that employees could keep frequent-flier miles earned during business travel, the Internal Revenue Service ruled that the value of all air-fare reimbursements must be reported as taxable income on the employees' W-2 forms.

That ruling was issued in a Technical Advice Memorandum, an IRS response to a taxation question. Under the ruling, experts feared that failure to put air-fare reimbursements into a separate plan would mean that all reimbursed expenses—such as hotel stays and meals while away from home on business—would also be reportable as taxable income on employees' W-2s.

(The employees would then be able to take business-expense deductions on their individual tax returns, subject to limits for miscellaneous itemized expenses.)

Although the memorandum applied only to one unidentified company, it raised such a ruckus that the IRS agreed to reassess its position before attempting to tax all frequent-flier miles. Two years later, the agency is still reassessing, and businesses are still up in the air on the correct tax treatment of frequent-flier miles.

"Everyone agrees that frequent-flier miles are technically taxable," says Bill Dunn, a partner in the Philadelphia office of Coopers & Lybrand, an international accounting and consulting firm. "The problem is how to value and record the income without creating an administrative nightmare for businesses, individuals, airlines, and the IRS."

Rep. Barbara B. Kennelly, D-Conn. says there are no easy answers to such questions, and she has introduced a bill in Congress that would prohibit the taxation of frequent-flier miles.

In the meantime, says Dunn, "companies may want to consider segregating airline expenses into a separate reimbursement plan and eliminating any language in their plans that expressly permits employees to keep frequent-flier bonus miles."

The IRS may be having trouble getting a full-blown frequent-flier policy off the ground, but the agency has been quick to crack down on obvious abuse. A recent court case involved a company president who purchased coach seats for business travel, used frequent-flier miles to upgrade to first class, then billed clients for first-class seating and pocketed the difference in fares. A Tax Court decided that the cash he kept was taxable income.

The moral of the story? For now, frequent-flier miles appear to be tax-free for employees who rack up miles while traveling on business. So sit back and enjoy the flight—but don't abuse the privilege. The sky is clearly not the limit.

—Gloria Gibbs Marullo

The author is a CPA and business writer in South Bend, Ind.

SOCIAL SECURITY

Retirement Plans Get Careful Review

The Social Security Administration is paying special attention these days to retirement-benefit applications from small-business owners. Those who plan to remain active in their businesses part time should be prepared to find their applications challenged or rejected, particularly if a lower-paid family member suddenly gets a big raise with no corresponding increase in responsibility.

In such an instance, "the government might claim you are just manipulating the numbers to generate Social Security income [for yourself] when, in fact, you're not retiring," says Douglas Stives, a member of the American Institute of CPAs' Small Business Tax Committee.

The co-owners of Quality Data Supply, a computer-equipment distributor in Camarillo, Calif., have experienced the Social Security Administration's rejection firsthand. Robert Winters wanted to retire at 62 and start receiving $820 a month in Social Security benefits. "I thought my wife, Judy, could run the business while I acted as a part-time consultant," he says. He would cut his salary to a little less than $9,000 a year so he could qualify for early-retirement benefits. Meanwhile, his wife would draw a much larger salary than she had been getting.

Winters was surprised when the Social Security Administration rejected his application for benefits.

One way to qualify, he figured, was to sell the business. He would then serve as a consultant to the new owner "to protect my investment to make sure the $300,000, five-year note I took back would be paid off."

Social Security auditors said Winters would have to take consulting fees commensurate with what he would get doing the same work for someone else. But this would put him way over the $8,640 annual means test to qualify for early-retirement benefit checks.

After seeing what he would have to go through to qualify for Social Security benefits at 62, Winters decided to cancel his plans, and he says he might work until he's 65 or even 70 and beyond.

"If you're up to it," says Stives, "it may be more advantageous to retire at age 70 or later, because you'll get a significant increase in benefits."

If you take early retirement at age 62, you receive only 80 percent of what you'd get if you retired at 65. If you wait until 70 to retire, you get an extra 25 percent.

A two-page fact sheet, *When You Retire From Your Own Business*, contains the official word on everything the Social Security Administration looks for when a small-business owner applies for retirement benefits. For a free copy, call 1-800-772-1213.

—Peter Weaver

The author is a business writer in Bethesda, Md.

INVESTING

Foreign Stocks Can Balance Your Portfolio

By Randy Myers

It sounds like a panacea: Add international stocks to your investment portfolio, and you'll not only improve your returns but also limit your portfolio's ups and downs.

But it also sounds suspicious. Doesn't everybody know that foreign stock markets are more volatile than U.S. markets, either because they're far smaller or less mature?

To a certain extent, that's true: Over the past 20 years, a portfolio of international stocks would have fluctuated more than a portfolio of U.S. stocks.

Mix the two together, though, and the power of diversification can make the sum more appealing than the parts. T. Rowe Price Associates, a Baltimore-based mutual-fund company, analyzed various mixes of U.S. and foreign stocks over the past two decades and found that in the right combinations they actually produced less volatility than a "pure" portfolio of either kind.

What's more, all of the combinations outperformed a portfolio of U.S. stocks alone, which could be an appealing discovery for investors troubled by the U.S. market's gyrations this year.

The optimal mix for safety-conscious investors, T. Rowe Price concluded, was a portfolio that held 30 percent of its assets in international stocks and 70 percent in domestic stocks. For the 20 years that ended Dec. 31, 1996, that portfolio produced average annualized returns of 14.7 percent, compared with 14.5 percent for a portfolio of domestic stocks.

Meanwhile, the mixed portfolio had a standard deviation of 13 percent, compared with 14 percent for its domestic cousin. Standard deviation is a measure of volatility; the higher the number, the more volatile the portfolio. In its calculations, T. Rowe Price used Standard & Poor's 500-stock index to represent the U.S. stock market, and Morgan Stanley Capital International's EAFE index—it stands for Europe, Australia, and the Far East—to represent foreign markets.

Portfolios that mix domestic and international stocks fluctuate less than "pure" portfolios because the world's stock markets seldom move in tandem for long; when one is going down, the other is often going up. That smooths out overall returns—an attractive feature for investors who don't know when they might need to take money out of their portfolio or who simply don't sleep well when their investments gyrate excessively.

Over the past two years, of course, the argument for investing internationally has been undermined by the U.S. stock market's phenomenal performance. The S&P 500 posted total annual returns of 37.6 percent and 23 percent in 1995 and 1996, respectively, compared with 11.6 percent and 6.4 percent for the EAFE index.

No market goes up forever, though; at some point, for some period of time, international markets will again outperform our own. And since a mix of international and U.S. stocks is likely to outperform a pure portfolio anyway, it makes sense to add some international holdings to your portfolio now if you haven't already done so. In fact, the timing might be ideal.

"The U.S. stock market has been a wonderful place over the last few years," says Gary Motyl, manager of the Templeton Capital Accumulator Fund, a global fund that invests in international as well as domestic markets. "But we now consider the U.S. market to be fully valued, and so we are putting more of our money somewhere else, and at the moment that is Europe. The economic outlook there is only fair, but a lot of companies in Europe have been doing a good job of restructuring and cutting costs, making them more competitive in the global marketplace."

William Zieff, manager of three global stock funds for Putnam Investments in Boston, also likes Europe right now, particularly Germany, whose stock market rose 28.2 percent last year. "Germany's done very well, but the outlook is still good," he says. "The dollar gaining on the deutsche mark has made the global German exporters very competitive."

Motyl says he is also finding attractively priced stocks in some of the emerging markets in the Far East and Latin America. "A lot of these countries are posting economic growth rates of 6 percent, 8 percent, even 10 percent, so there's a strong underlying tone to business activity there," he says.

In early April, Motyl had about 20 percent of his fund's assets in U.S. stocks, a dramatic underweighting given that U.S. stocks account for about 40 percent of the developed world's total stock-market value. By contrast, he had more than half of the fund's assets in Europe, which accounts for only about one-third of world stock-market valuations. He held just a few stocks in Japan, which remains in an economic slump.

Motyl explains his fund's slim weighting in U.S. stocks by noting that it is designed to provide investors with broad exposure to international markets. Most individual investors probably shouldn't exceed a 30 percent allocation to international stocks unless they are strongly convinced that foreign economies—and foreign-headquartered companies—will consistently outperform our own.

Motyl, who also manages money globally for institutional clients such as pension funds, says most of those investors have 15 to 20 percent of their stock portfolios invested internationally. That's probably a good target for individuals just getting started with international investing. NB

Randy Myers is a business writer in Dover, Pa.

FINANCE

Asset Accounts Keep Cash Working

Brokerage houses and banks offer plans to integrate checking, borrowing, and investing, but the gains should outweigh the costs.

By Randy Myers

As president of RCDC Corp., a firm that cuts and sells wholesale diamonds in New York City's diamond district, Stanley Grossbard does a glittering $10 million worth of business every year. But until recently, his cash-management practices were decidedly lackluster. In 1995 alone, Grossbard estimates, he paid his bank about $7,000 interest on borrowed money that, in hindsight, his company really didn't need.

All that has changed since Grossbard—whose art is known as diamond manufacturing—opened an asset-management account with a $1 million line of credit through New York City-based Merrill Lynch & Co., the nation's largest brokerage house. Grossbard's business now borrows only the amount of money it needs when it needs it, eliminating unnecessary interest expense.

Of course, that can be done with any credit line. What's special about this one is that it is tied to RCDC's assets.

Asset-management accounts are designed to link a company's checking, investing, and lending accounts under one umbrella, automatically moving available cash to the place where it will earn—or save—the most money. That means that on any day that idle cash appears in the account, Merrill Lynch automatically applies those funds to the balance on the credit line, further holding interest expense to a minimum.

But what if there is no balance on the credit line? Again, Grossbard's asset-management account goes to work, each day automatically "sweeping" idle funds into an interest-bearing money-market fund.

RCDC is just one of a growing number of small businesses taking advantage of asset-management accounts, which are offered not only by pioneer Merrill Lynch but by almost every major brokerage house in the country. Merrill Lynch launched the first "cash management account"—and trademarked that name—in 1985.

Not surprisingly, commercial banks haven't ignored what they see as an intrusion onto their turf. Today, most banks can duplicate the features of an asset-management account through what are known as targeted-balance or zero-balance checking accounts. Under such an arrangement, the customer sets a maximum on the amount to be kept in the checking account. Funds above the maximum are either applied against a loan or the balance of a line of credit or are funneled into an interest-bearing account on a daily basis.

Hands-Off Management

Whatever the name, all of these products are highly useful tools for simplifying the day-to-day administration of a company's working capital.

PHOTO: ©TOM SOBOLIK—BLACK STAR

Diamond cutter *Stanley Grossbard can concentrate on his work now that a brokerage house is focusing on the daily management of his firm's cash accounts.*

While most businesses appreciate the opportunity to save on interest expense and generate additional interest income, Peter Stanton, Merrill Lynch's director of business planning and cash management for the Private Client Group, says most customers identify convenience as the most appealing feature of asset-management programs.

"The biggest benefit is not having to manage the accounts," Stanton says. "They [customers] just make their deposits, write their checks, and, depending on what's cleared, they're automatically invested, or borrowing, or paying off their loan." Because the financial-services firm is managing the money, he says, the customer "probably saves 30 or 45 minutes a day, and hopefully they're picking up some financial return as well."

That's exactly what happened for Jane Deamer, controller of Tighe Industries Inc., a York, Pa., firm that makes swimwear and gymnastics outfits. Tighe supplied apparel for the U.S. women's gymnastics team at the Olympics last year.

Unlike RCDC, which is usually a net borrower, Tighe has idle cash on hand from time to time. Before 1995, Deamer and her staff manually monitored the balance in the company's checking account and once or twice a week transferred available funds into a money-market account to earn interest.

The job was not only time-consuming but also imprecise. Deamer had to balance any transfers into the money-market account against her estimates of incoming cash and upcoming expenses. Now she has a targeted-balance account with York Bank, a local institution, which sweeps her checking account every day and automatically puts any available cash to work in an interest-bearing money-market fund.

When Tighe does have a balance outstanding on its line of credit, York Bank applies any idle cash against that balance

rather than funneling it into the investment fund.

"Doing this work manually left room for it not to be done daily," Deamer says. "Practically speaking, you couldn't do it." She estimates that her office is saving three hours of work per week while paring interest expenses.

RCDC's Grossbard is saving time and aggravation along with money, too. Before opening his Merrill Lynch account, borrowing was a perplexing problem for him. Experience had taught him that he would need credit of about $900,000 to $925,000 a year to keep his business running. But because most banks don't understand the diamond business well enough to extend lines of credit to diamond manufacturers, he was forced to take out annually renewable term loans to meet his borrowing needs.

Eager to keep the frequency of his loan requests to a minimum, he typically borrowed $1 million instead of the $900,000 or so he expected to need. At the prime rate plus 1 percent, his interest on the difference was about $7,000 a year. "That's certainly money I'd rather have [myself] than give to the bank," Grossbard says. "And as a matter of principle, I don't like the idea of paying for something I'm not getting the opportunity to use."

With Merrill Lynch, he says, "I'm still paying about the same interest rate on my loan, and the fees for wire transfers are actually lower than what I was paying at my commercial bank. For me it's a win-win situation."

Examining Fees And Features

If you're thinking about opening an asset-management account for your business, do some comparison shopping first. Many vendors offer an array of optional services, and fee structures vary. Choosing well is important. At Tighe Industries, for example, Deamer initially opened an account with Merrill Lynch, then switched to her local bank when she found that Merrill's fee structure wasn't suited to her business.

"Merrill Lynch has an excellent product, but they have processing charges for deposited items, and we have a lot of deposited items—about 30,000 per year," Deamer says. "That made Merrill's product uneconomical for us."

Merrill Lynch offers customers 100 free deposits per month and charges 25 cents per deposited item thereafter. Businesses that don't have a high volume of deposits, such as RCDC, often find Merrill's product suited to their needs. The brokerage house has more than 130,000 customers in its Working Capital Management Account program, more than any other vendor. In fact, says Stanton, "I think the fees are typically a little lower at a brokerage house, and the return on your interest-bearing account is likely to be higher."

Where banks may have an advantage over most brokerage-firm accounts, Stanton says, "is in being able to provide more commercial-banking services: depository functions, payroll services, lockbox services. A lot of businesses will find that they need both"—a brokerage firm and a commercial bank.

Balancing *fund transfers is faster now that a local bank "sweeps" the firm's cash to work every day, says Jane Deamer, controller of a company that makes swimwear and gymnastics outfits.*

Comparison Shopping

A quick survey of two brokers and two commercial banks indicates how costs for asset-management accounts can vary:

Merrill Lynch charges $150 per year for its basic Working Capital Management Account, which provides daily sweeping activities like those described above. Businesses must deposit at least $20,000 to open an account, although they are not required to maintain a minimum balance after the account is opened.

Another large brokerage firm, Dean Witter Reynolds Inc., charges $100 per year for its basic Active Assets Account and requires a minimum initial deposit of $10,000. The account's features are similar to those offered by Merrill Lynch.

York Bank, a subsidiary of First Maryland Bancorp, charges $75 or $100 per month for a targeted-balance checking account that sweeps money into an interest-bearing account; the fee depends on the investment option chosen.

Net borrowers pay York Bank $150 a month for a similar account that applies idle cash against an outstanding loan, or $50 per month for that service if they also use the investment portion of the program. On the other hand, customers can bypass fees by maintaining a minimum balance in their checking account sufficient to cover the cost of transactions, which the bank calculates.

In New York City, Bank Leumi Trust Co. charges $50 per month for what it calls Leumi Access, a software-based product that allows customers to access their bank accounts directly via personal computer. Bank Leumi customers can then add various "modules" to Leumi Access for $25 per month per module, including zero-balance accounts that in effect duplicate the daily sweeping function common to brokerage firms' asset-management accounts.

Optional features available with many asset-management accounts, usually for an extra charge, include credit lines, electronic charge-card processing, debit cards, wire transfers, brokerage services, the ability to transfer funds among institutions through an automated clearinghouse, and automatic payment of federal payroll, excise, and income taxes.

Weighing Costs And Gains

Stanton says the first responsibility of any business owner or manager shopping for an asset-management account is to ensure that any fees are offset by gains to be achieved through reducing interest expenses, increasing interest income, or eliminating the time spent—and thus the cost of—performing such functions in-house.

If the gains do outweigh the costs, you

should also look at what optional services are available, what types of interest-bearing accounts are provided, and how quickly the vendor sweeps idle cash. Some banks sweep accounts daily, but only on a next-day basis, observes F. Winfield Trice Jr., senior vice president for commercial business at York Bank. That is, funds deposited on a Tuesday wouldn't be swept until Wednesday. By contrast, York Bank sweeps its customers' accounts on a same-day basis.

In general, larger banks and brokerage firms offer more options for investing working capital than their smaller counterparts. At Merrill Lynch, for example, idle cash can be swept into any of five money-market funds or an insured savings account. (ISAs deposit funds into a Federal Deposit Insurance Corp.-covered money-market deposit account at one or more banks or savings associations, thereby providing federal deposit insurance for the funds.) In comparison, York Bank offers three investment options with its targeted-balance accounts.

Choice is important when a firm is investing idle cash, because returns—and risks—vary among investment accounts. For example, Merrill Lynch's CMA Treasury Fund is very conservative, investing only in direct obligations of the U.S. government, such as Treasury bills, notes, and bonds.

Its CMA Money Fund, which is slightly riskier, invests not only in a wide range of short-term U.S. government and federal agency securities but also in bank certificates of deposit and commercial paper.

For the added risk, investors get added return; the CMA Money Fund was yielding 5.06 percent on April 2 (to take just one day as an example), while the CMA Treasury Fund was yielding 4.76 percent. For companies with large amounts of working capital on hand, that difference of a quarter of a point in yield can add up to a substantial amount of money over a year.

> "Customers want to focus on the revenue side of their business and cut costs associated with supporting their business."
> —Tom Hoffman, First Vice President, Bank Leumi Trust Co.

Investment Possibilities

Apart from risk and reward, businesses in high tax brackets will want to know whether their vendor offers tax-advantaged investment options, such as mutual funds that invest in municipal bonds, which are exempt from federal taxes. For such companies, the lower yields available from municipal bonds may provide higher after-tax returns than taxable money-market funds with higher nominal yields.

Choose the right asset-management account and you'll almost certainly find yourself with more time to manage your business operations and more cash in your bank account.

"Increasingly, customers want to focus on the revenue side of their business and cut costs associated with supporting their business," observes Tom Hoffman, first vice president and head of custom business services for Bank Leumi. "This is a simple way to outsource some of those support functions."

"For us," summarizes Tighe Industries' Deamer, "the benefits are definitely outweighing the costs." NB

SMALL BUSINESS TECHNOLOGY

The New Face Of Presentations

The latest hardware and software can help you show off your company's substance with a high degree of style.

By Tim McCollum

How can an entrepreneur walk into a meeting and make an instant impression that not only is visually exciting but also emphasizes the company's capabilities?

That was the predicament faced by Herman Colbert, general manager of Western Pacific operations for Graphco Technologies Inc. in West Trenton, N.J., as he and his colleagues prepared to visit potential clients earlier this year. The meetings were crucial for building the customer base of the two-year-old firm, which makes software that enhances semiconductor production.

Colbert felt that if he could show off his company's technological prowess, he would make some sales. So he decided against a standard slide presentation on a notebook computer. Instead, he and his Graphco colleagues purchased a portable LCD (liquid crystal display) projector—a LitePro 220 from In Focus Systems Inc. They took it to their customer meetings, plugged two laptops into it, and jumped right into their presentation.

PHOTO: MICHAEL MCDERMOTT—BLACK STAR

Specialized, multimedia technology *puts Herman Colbert, a manager of operations for Graphco Technologies, on solid ground when he makes sales presentations.*

Colbert says the projector and the attached laptops enabled the firm to display large, colorful graphics and complex technical diagrams that got clients' attention. The machine "lets us give a clear overview of what we're doing," he says. "It's a heck of a lot better than using an overhead projector and foils [transparencies]. Everything in our presentation works seamlessly."

Getting Visual

These days, it's not just what small-business people say that counts, it's the style with which they say it. Slides and transparencies don't hold viewers' attention anymore—not in an era of fast-paced video clips and personal computers.

"People are just used to visual, very high-tech things now," says Rowena Crosbie, president of Tero International Inc. in West Des Moines, Iowa, which teaches presentation skills to

Pointers For Presentations

Making successful presentations can be harder than it looks, says presentation trainer Rowena Crosbie of Tero International Inc. in West Des Moines, Iowa. Noting that addressing an audience is daunting for many people, she says it's often because they never learned how to give presentations.

Crosbie says many speakers focus too much on what they say and pay too little attention to how they say it, so in the end they overwhelm their listeners with facts rather than persuade them to act. "People kind of get lost in the information," Crosbie says. "Presenters get into a 'data dump' situation where they dump so much information on the audience that it isn't even useful to them."

Good speakers, Crosbie says, are concerned with the needs of their audience. They limit presentations to a few critical points. Listeners who want more detail can ask questions.

One common mistake of speakers is to rely too heavily on visual aids. Crosbie says those who use presentation software often simply read what is on a screen rather than talk directly to the audience. "If all you're going to do is read to me, just give me the paper," says Crosbie. "You have to use visuals to enhance your message." This can be accomplished best, she says, with pictures, charts, and animation.

Crosbie offers the following suggestions for small-business people who want to become more effective in making presentations:

Take a speaking class. Many consultants and schools offer two- or three-day public-speaking courses that teach effective presentation techniques as well as instruction on using presentation hardware and software.

Make eye contact with the audience. Crosbie says presenters often wind up facing their visuals or looking into their notebook PC.

Keep your hands free. Pointing devices, pens, even lecterns can distract the audience. Some speakers play with them during the presentation, stealing attention from the message. Crosbie says people can be their own best visual aid—or their worst.

Rehearse. Practice what you will say and how you will say it. Make sure that the presentation you created works as planned. Make certain that devices such as projectors and notebooks work properly.

business people. "A lot of the technology that's out really enhances a presenter's ability to give a more visual presentation. People who are going into presentations with overheads are giving themselves an image that's not quite up-to-date."

By now, many business people have discovered how they can create colorful, attention-grabbing business presentations using computer-graphics software such as Adobe Persuasion, Lotus Freelance Graphics, and Microsoft PowerPoint.

Lately, the bar has been raised even higher by these programs and by more-specialized multimedia software such as Astound Inc.'s Astound and the Micrografx Graphics Suite, which permit the incorporation of live elements such as animation, sound, and video in presentations.

Rapid advances in hardware technologies such as LCD projectors, large-screen computer displays, high-speed CD-ROM recorders and players, color laser printers, and electronic white boards (large screens for sketching notes and diagrams electronically) are enabling those who make presentations to take full advantage of some or all of these multimedia features. A recent customer survey conducted by Microsoft found that 42 percent of PowerPoint users give presentations electronically.

Brighter, Crisper Images

LCD projectors, especially, have come into their own in the past two years, with sales expected to top $1 billion in 1997, according to Pacific Media Associates, a Mountain View, Calif., firm that does presentation-technology research. The devices allow the user to project images from PCs, video cameras and recorders, and television broadcasts onto screens or walls.

According to Art Feierman, a partner in Presenting Solutions!, a San Clemente, Calif., presentation-equipment reseller, the latest LCD projectors, such as the LitePro 220, the Epson ELP-3500, the Proxima Lightbook, and the Sharp XG-NV1U NoteVision, now cast significantly brighter images with more and crisper colors, last longer, and are more compatible with PCs and other video sources.

"Projectors are a high-performance playback tool" and can be effective in making sales, says Feierman. "You walk in with a projector and you look a lot better. You've got to be a professional when you're out there selling, and this will let you do that."

That visual edge was important for Colbert and Graphco. During the recent West Coast road trip, Colbert had to give both a sales presentation about Graphco and a technical briefing on its technology—a briefing that included elaborate diagrams on how the technology works and a demonstration.

The sales presentation was easy to prepare using PowerPoint, and it ran smoothly off the Windows-based notebook computer that Colbert connected to the projector. When it was time for the technical briefing, Colbert fired up the second notebook, which ran under a different operating system, UNIX.

In the past, he would have had to depend on overheads and handouts for the presentation, or his clients would have had to crowd around the notebook to view the demonstration on its small screen. With the LitePro projector, the content appeared clearer and more colorful, and it had more of a live feel, says Colbert. "It's more captivating. Our customers love it."

Colbert says the projector also gives him greater control over the media that he and his colleagues use during a presentation, so there's less that can go wrong. That in turn makes Graphco appear more organized and professional.

Equipment reseller Feierman says a small company can buy a good portable projector for less than $8,000 or lease one for around $300 a month.

Moreover, Feierman notes that because LCD projectors now weigh as little as 10 pounds, they can be taken to meetings and trade shows as easily as notebook computers. Colbert says he takes his projector aboard planes like a carry-on bag.

PHOTO: STEVE WOIT

Effective use of media *helps presentation expert Julia Jones bring out small firms' creative side.*

Electronic White Boards

Among other presentation devices that are becoming popular, says Feierman, are large-screen monitors, used by many companies that do numerous presentations on their premises.

Presentation monitors such as the AR3.1AV from Princeton Graphics Systems look a lot like big-screen televisions, with sizes up to 40 inches. They can display content from PCs or videocassette recorders, and they can broadcast standard TV programs. A variation on this theme is the Destination PC from Gateway 2000 Inc., which combines a multimedia PC with a 31-inch display and broadcast-TV compatibility.

Electronic white boards such as Softboard Inc.'s Softboard 203 are becoming a useful part of business meetings that involve collaboration among participants. Information written or sketched with electronic markers onto these high-tech versions of the traditional pen-and-ink white boards can be downloaded to a PC.

Creating impressive presentations is getting easier, too. Presentation software often features templates and automated how-to procedures to help novice users put together professional-quality presentations quickly.

The more graphically inclined may prefer to use desktop publishing and specialized graphics programs, which can incorporate more-sophisticated features such as sound and video. Such easy-to-use software can bring out a small firm's creative side.

Julia Jones, who creates and gives presentations for a living, knows this firsthand. As customer-service manager for Executive Development Inc. in Minnetonka, Minn., she instructs corporate-

training specialists on how to teach executives and managers business skills and techniques. Effective use of media plays a key role, and Jones leads by example. She uses PowerPoint on her PC and Adobe Pagemaker and Persuasion on her Apple Macintosh to create presentation materials such as slides, transparencies, and handouts. She prints them on a Phaser 340 color laser printer from Tektronix Inc.

This combination of technologies gives her greater control over how her materials turn out and allows her to brighten her presentations with high-quality color.

"The emphasis in our presentations is not only consistency but on having fun," says Jones. "Having that vibrant color just ties that right in. It's important for all the materials to match and be consistent. That's what we teach people."

Jones says the presentation technologies she employs let her show her clients what an effective presentation looks like and how they can use similar hardware and software to convey their message better.

Technology can make visual presentations less formal while they convey important information.

Using Resources At Hand

Presentation technologies enable the user not only to create visual presentations but also to make them interactive. Links can be embedded in most multimedia and presentation software so the presenters can jump between slides as needed to make a point or respond to a question. Presentations can be less formal yet still convey important information.

"That's a real strength because the software puts all the resources immediately at hand in your presentation," says Feierman of Presenting Solutions! The faster processing speeds, larger hard drives, and increased memory capacity of PCs equipped with CD-ROM players have made them more useful for creating and playing back interactive and multimedia presentations. CD-ROM recorders allow small companies to put full multimedia presentations on CD-ROMs, which can be played back before an audience and even duplicated and given to meeting participants.

The new digital video disc (DVD) format may take that further by allowing the user to put in more video and audio content—potentially the entire presentation itself could be on a disc.

Presentation technologies can provide a lot of help to small-business people, but they can go only so far. Even the best visuals and technology tools won't save someone who lacks presentation skills, says presentation trainer Crosbie, and a poorly conceived presentation will make things worse.

"Technology can be very overwhelming to presenters who don't know how to use it properly," she says. "They begin to use the visuals as a crutch for their presentation. You have to use them to enhance your message." NB

Product Facts And Figures

Following are the manufacturers, toll-free numbers, and retail prices for the products in the article above.

Projectors

ELP-3500; Epson America Inc.; 1-800-463-7766; $7,999.

LitePro 220; In Focus Systems Inc.; 1-800-294-6400; $5,499.

Lightbook; Proxima Corp.; 1-800-447-7692; $4,999.

XG-NV1U NoteVision; Sharp Electronics Corp.; 1-800-237-4277; $7,995.

Other Hardware

Destination PC; Gateway 2000 Inc.; 1-800-846-2000; starts at $2,999.

AR3.1AV presentation monitor; Princeton Graphics Systems; 1-800-747-6249; $1,399.

Softboard 203 electronic white board; Softboard Inc.; 1-888-763-8262; $3,995.

Phaser 340 color laser printer; Tektronix Inc.; 1-800-835-6100; $4,995.

Software

Persuasion; Adobe Systems Inc.; 1-800-685-3505; $395.

Astound; Astound Inc.; 1-888-427-8686; $249.

Freelance Graphics; Lotus Development Corp.; 1-800-343-5414; $355.

Micrografx Graphics Suite; Micrografx Inc.; 1-800-733-3729; $349.95.

PowerPoint; Microsoft Corp.; 1-800-426-9400; $339.

Small Business Technology

The newest processors bestow more PC speed than ever—and even faster models are in development.

By Albert G. Holzinger

Time To Switch To The Pentium II?

The new Pentium II processors from Intel Corp. make personal-computer operations run at unprecedented speeds, but business users should not feel compelled to replace still-serviceable PCs immediately.

Companies running mainstream business software—including the feature-rich but sluggish Office 97 suite from Microsoft Corp.—would enjoy but might not need the power offered by new computers built with Pentium II processors. And possibly by the fall, somewhat enhanced Pentium II systems will be available at prices lower than those of the first-generation models.

On the other hand, those whose businesses depend on power-hungry software for financial analysis, computer-aided design, or other graphics-intensive purposes should not hesitate to buy the current Pentium II systems, even at the higher prices associated with leading-edge technology.

The Pentium II *does not look like previous Intel processors, which were thin squares with many pins protruding from the bottom. The new processor resembles a 135mm pocket camera. Intel says the design will facilitate quick, relatively inexpensive upgrades.*

Different Processors, Different Users

Intel introduced the Pentium processor in 1994. Since then, the Pentium's top speed has increased to 200 megahertz (MHz) from 60MHz. And early this year, Intel further boosted the Pentium's performance with so-called MMX (multimedia-extension) technology. Programs that use this technology are highly efficient at accomplishing multimedia tasks such as scanning and manipulating images, videoconferencing, and browsing the Internet.

Pentium MMX systems remain a viable, less-expensive alternative to Pentium IIs for the many business and home users who continue to run a combination of old (16-bit) and current (32-bit) software under Microsoft Corp.'s Windows 95 operating system.

Even while it was enhancing the Pentium line, Intel recognized that some users needed even more computing power than those processors could provide. So in 1996, the company introduced the Pentium Pro for users of only 32-bit software and the robust, crash-resistant Windows NT operating system. In this environment, Pentium Pros, which also are available now at speeds of up to 200MHz, perform better than Pentiums of corresponding speeds.

The new Pentium IIs are, in essence, Pentium Pros enhanced with MMX technology and running at the previously unattainable speeds of 233MHz and 266MHz, and very soon at 300MHz.

Great—And Getting Better

"For the first time in a significant while, the Pentium II offers users a no-compromise choice of processors" running 16-bit or 32-bit software under either Windows 95 or Windows NT, says Dave Berger, director of product marketing for the Americas for computer maker Gateway 2000 Inc.

This article was written on Gateway's G6-266 system featuring a 266MHz Pentium II processor, a generous 64 megabytes (MB) of memory, a giant 4.9-gigabyte hard disk, a fast 12-speed CD-ROM drive, and an Iomega Zip drive, which serves as a 100MB floppy-disk drive.

The G6-266 costs a surprisingly low $3,349 direct from Gateway 2000; 1-800-846-2000. Similar Pentium II systems with comparable prices are available now from other major computer manufacturers, including Acer, AST Research, Compaq, Dell, Digital Equipment, Hewlett-Packard, Micron Electronics, and NEC.

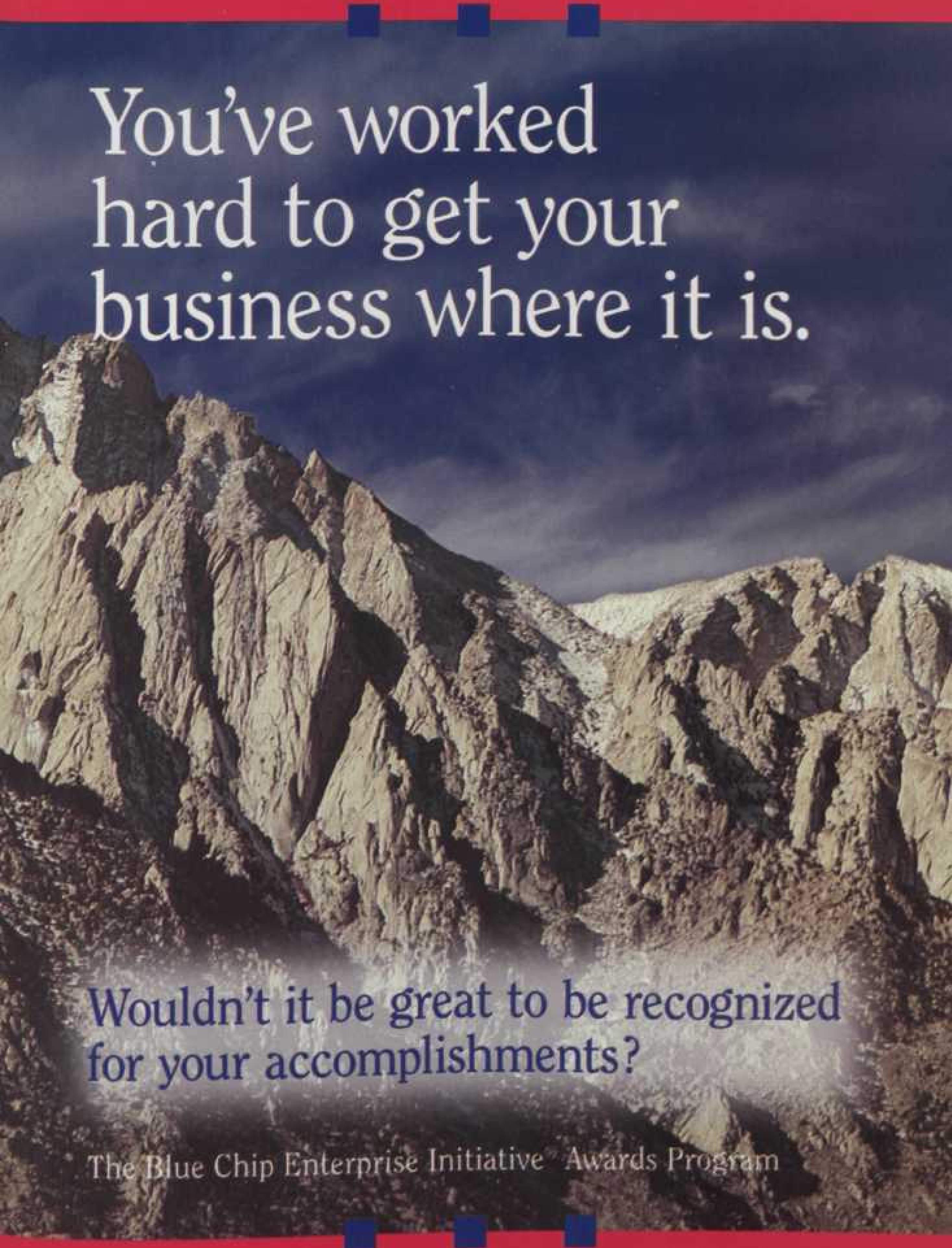
The *Nation's Business* Pentium II test system does not make typing faster, but it opens the word processor—the Office 97 version of Microsoft Word—almost instantly. In fact, this system visually confirms the quantitative findings of Ziff-Davis Publishing Co.'s well-respected testing labs: The Pentium II provides a huge performance boost to software ranging from Intuit's Quickbooks accounting package to Adobe System's Photo Deluxe image-manipulation product to Netscape Communications' Navigator program for browsing the Internet.

More Speed Around The Corner

Intel wants to maintain its technology lead over Advanced Micro Devices and Cyrix Corp., which have begun producing Pentium II-like processors with 233MHz speed.

Thus, several enhancements to the Pentium II are expected shortly, the first a set of main board chips related to the processor. The so-called 440LX chip set will provide, among other things, even faster graphics processing. And by next April, don't be surprised to see in stores PCs featuring 400MHz Pentium IIs and related, fine-tuned chip sets.

As Gateway's Berger observes, users "can never be too rich, too thin, or have a computer that's too fast." NB


You've worked hard to get your business where it is.
Wouldn't it be great to be recognized for your accomplishments?
The Blue Chip Enterprise Initiative Awards Program

Program

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

The Blue Chip Enterprise Initiative® recognizes small businesses that have demonstrated the ability to withstand the cyclical nature of business, overcome **adversity**, seize opportunities and succeed. Through a national application process, the Initiative seeks to identify and learn from small businesses that have successfully **managed resources**, committed to excellence and **emerged stronger**.

Their real-world ideas and solutions are collected and disseminated locally, regionally and nationally. Since the program's inception in 1990, thousands of companies have participated in the Initiative. This is your firm's chance to receive the **recognition** it deserves.

History... Small Business – the Fabric of America's Economy.

Small businesses have long provided America with jobs, innovation, prosperity and economic vitality. Today, small businesses face unprecedented challenges. Fierce competition, rapidly changing technology, capital constraints, employee retention, natural disasters and economic downturns are just a few of the many problems that can force a small firm out of business. The perseverance of the small business owner is the model by which business success is measured.

To meet these daunting challenges, small businesses must have access to proven strategies, pragmatic ideas and essential resources that will assist them in competing... and succeeding. This is why MassMutual – The Blue Chip Company, in partnership with the U.S. Chamber of Commerce, *Nation's Business* magazine and *First Business*, the daily national television newsprogram, offers The Blue Chip Enterprise Initiative®.

The program was established in 1990 by The Connecticut Mutual Life Insurance Company. It recognizes successful small businesses – the Blue Chip companies of today – and serves as a valuable resource for thousands of business owners. Through the Initiative, small firms tell their stories of success in an increasingly rigorous business climate.

The Initiative allows business owners to reflect on their accomplishments and learn from the case histories of other successful businesses. It also provides important recognition and networking opportunities at local, regional and national levels.

Opportunity

★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★ ★

The Blue Chip Enterprise Initiative® is a national program that invites business owners to share their challenges, opportunities and ideas for success.

From the applications received, an independent panel of judges selects companies from each state, the District of Columbia and Puerto Rico as Blue Chip Enterprise Initiative® honorees. These Blue Chip companies will receive the following acknowledgments of their achievement:

- ★ A prestigious nationally recognized award
- ★ Extensive publicity, including coverage in *Nation'sBusiness* magazine
- ★ A one-year membership in the U.S. Chamber of Commerce, including a one-year subscription to *Nation'sBusiness* magazine
- ★ Blue Chip Enterprise Initiative® logo to use in advertising and signage
- ★ A case-history book, *Insights and Inspirations: How Businesses Succeed*, chronicles the descriptive accounts of the exemplary use of resources and strategies employed by the Blue Chip Enterprise Initiative® honorees
- ★ Selected honorees will be profiled on *First Business*, a daily national television newsprogram that highlights small business issues
- ★ A three-volume video library highlighting the *First Business* BCEI broadcasts
- ★ Community recognition and networking opportunities
- ★ Four Blue Chip Enterprise Initiative® national honorees will be chosen and will each receive an all-expense paid trip for two to Washington, D.C., to be recognized at the U.S. Chamber of Commerce's Annual Meeting

We invite you to complete the Blue Chip Enterprise Initiative® application.

Photo: Rocky Mountains, Trout Creek, Colorado, U.S.A.

The Blue Chip Enterprise Initiative® Application

STEP 1: COMPANY PROFILE

Name of Owner | Title

Company

Address

City | State | Zip

Business Telephone | Business Fax

Alternate Contact Name | Title

Type of Business (Check all that apply)

- ☐ Agriculture
- ☐ Retail Trade
- ☐ Construction
- ☐ Services
- ☐ Finance/Insurance/ Real Estate
- ☐ Transportation/ Communication
- ☐ Franchise
- ☐ Manufacturing
- ☐ Other (describe):

- ☐ Publicly Traded
- ☐ Family Business
- ☐ Privately Held

Brief Description of Products/Services:

Annual Sales | Number of Employees | Year Established

Source of Application: ☐ *Nation's Business* ☐ *First Business* ☐ MassMutual Agent (Agent's Name) ________
☐ Business Colleague ☐ Chamber of Commerce (Location) ________ ☐ Other ________

Owner's Signature | Date

STEP 2: THE STORY OF YOUR CHALLENGES (500 words or less)

Please describe the major challenges you faced or the opportunities you have created. These may include loss of a major client, rapid growth, employee turnover, product differentiation, unforeseen industry changes, natural disasters, etc.

STEP 3: THE SUCCESSFUL SOLUTION (500 words or less)

Tell us how you made your business succeed. Please describe the resources, strategies and tactics you used to overcome your business challenge(s). We are looking for insights into the management of your company's resources such as quality assurance, marketing, human resources, community relations, financial management, technology, etc. Clearly detail how implementing your solutions significantly improved your company's performance. Give specific examples where appropriate.

STEP 4: PLEASE SEND THE COMPLETED APPLICATION AND ADDITIONAL PAGES TO:

Mail to: **MassMutual** ★ P.O. Box 2048 ★ Hartford, CT 06101 ★ Fax to: **1-860-987-2596**

DEADLINE: 3RD FRIDAY IN OCTOBER ★ For more information, call **1-800-FOR-BCEI**.

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Wallace J. Bronner, Originator and Manager
Bronner's CHRISTmas Wonderland
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FIRST BUSINESS

Nation's Business
The Small Business Adviser

Photo: Sierra Nevada, California, U.S.A.

MANAGING

Ending Welfare As A State Of Mind

As reform takes hold, business is helping to find the best ways to keep the rolls shrinking.

By Michael Barrier

One question raised by critics of welfare reform has been: Can welfare reform—and a work requirement in particular—really succeed? So far, evidence is mounting to suggest that it can. To keep that momentum building, President Clinton summoned the heads of more than 100 businesses to the White House in May to join him in encouraging businesses of all sizes to hire welfare recipients.

State and local chambers of commerce around the country have already begun acting as go-betweens for welfare recipients who are seeking work and for businesses—especially small businesses—that need workers.

The Charlotte (N.C.) Chamber of Commerce has launched Work First, a program that David C. Belton, the chamber's vice president for education and work-force development, calls "an assertive marketing approach to the business community, to get them to provide jobs for welfare recipients." The chamber puts interested businesses in touch with a job-developing firm that does the actual matching of welfare recipients with jobs.

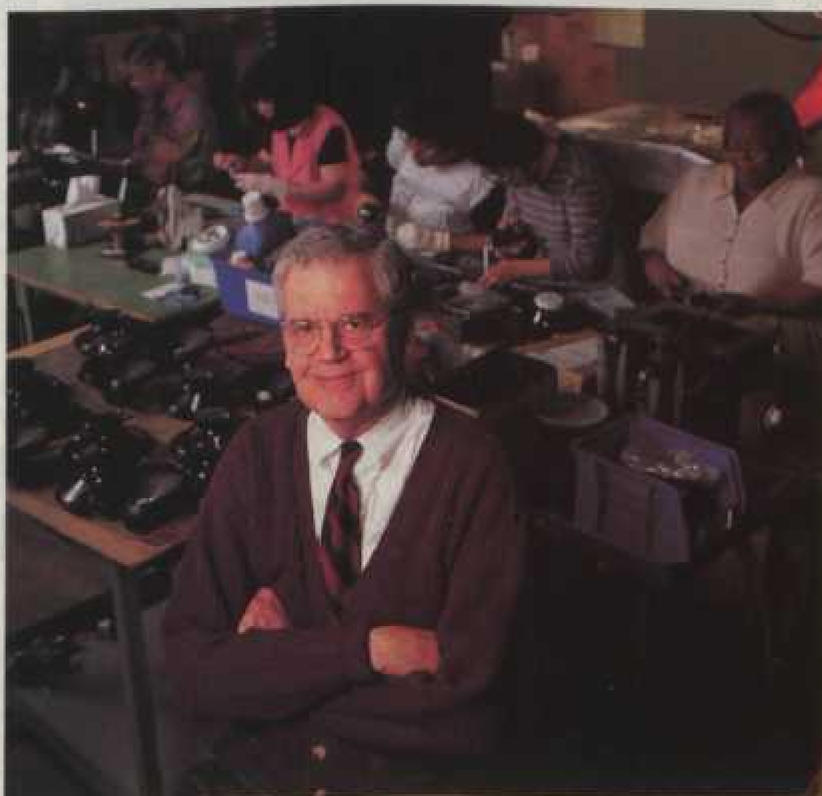


PHOTO: KRALF-FINN HESTOFT—SABA

People tend to live up *to expectations, says Chicago businessman William G. Little, so small firms should hire welfare recipients "expecting that they're going to succeed."*

The Maine Chamber and Business Alliance signed a one-year contract last fall with the state government to place 24 welfare recipients directly in jobs with businesses and nonprofit organizations, through a program it calls ASPIRE (for Additional Support for People in Retraining and Employment); the chamber has hired a former welfare recipient to manage the program.

Probably the most ambitious such program is IndEx (for Industrial Exchange), sponsored by the Metropolitan Tulsa (Okla.) Chamber of Commerce. About 300 people who have gone through the IndEx program since it started in 1992 are on the job now; around two dozen companies have participated. Of the 90 people who were enrolled recently, half were getting training on the employers' premises.

IndEx puts welfare recipients through six weeks to six months of training, depending on the need, then moves them into jobs through direct placement, a 30-day temporary-employee service, or a 90-day on-site training program, for which IndEx furnishes the trainer and transportation.

Although IndEx collects some fees for its services from participating employers, about 40 percent of its $500,000 budget for 1997 will come from a foundation grant and other private sources.

The program has been accelerating—it produced more "graduates" last year than in the program's previous three years. "This year," says A. Wayne Rowley, who oversees IndEx as the Tulsa chamber's director of human-resource development, "we're again on a pace to double that or maybe even triple it," adding at least 300 former welfare recipients to the work force.

The 90-day program, started about six months ago, has drawn the interest of high-tech companies, Rowley says. Though former welfare recipients may lack the skills to design or build technically advanced machinery, he says they "can run equipment just like everybody else can run equipment. You just have to take some time to train them."

A Different Kind Of Training

Although IndEx embraces such vocational training, the most important kind of training it provides is not job-specific. It is aimed instead at educating welfare recipients in the basics of the world of work—a world that is often alien to people who may have been locked into welfare dependency for generations.

Rowley speaks of how basic such training must be: "Are they being taught that they've got to get to work at 8 o'clock in the morning, and you can't leave until 5? That you can only take two breaks, and you only get lunch besides that? That no matter how bad you want a cigarette, you don't walk off the floor?"

Training of that kind is what employers want, Rowley says: "They do not want subsidies for the payroll." IndEx's training has been so successful, he says, that "we don't have any trouble placing people. We have more requests for people than we have people to fill the slots."

One company that has hired IndEx

workers is Southern Specialties, a sheet-metal-fabrication shop with 35 employees. Carl Renoud, the general manager, says he has only one IndEx graduate on his staff now, "but I'm looking for more." Southern requires skilled employees for some jobs, but others—such as grinding and riveting—are semiskilled, and still others, such as assembly, require very little training.

Renoud is, however, concerned less with potential employees' specific skills than with "what's in their heads. Their work ethic, being on time, being self-starting, and driven to do a good job. I think that's what IndEx is really trying to focus on."

That same focus—not on vocational training but on "what you have to know to get a job," as one expert puts it—is characteristic of some other welfare-to-work programs, both public and private, whose success has drawn increasing attention. One is STRIVE/East Harlem Employment Service, which is New York-based and privately funded. It was featured in May on the television program "60 Minutes."

PHOTO: ©STEVE JENNINGS

IndEx, *a welfare-to-work program in Tulsa, Okla., is overseen by A. Wayne Rowley, shown with IndEx trainee Silvia San Martin.*

Lorenzo D. Harrison, STRIVE's deputy executive director, told a Senate subcommittee in April that STRIVE (for Support and Training Results in Valuable Employees) has learned during its more than a dozen years in operation "that employers hire its graduates because they are 'attitudinally correct,' conscientious, likable, interpersonal, intelligent, ready to learn and work, and appear to have made some concessions to mainstream social norms."

What Employers Hope To Find

Marilyn Kuhlman, program manager for Greater Avenues for Independence (GAIN), a public agency in Riverside County, Calif., that has placed more than 60,000 welfare recipients in jobs in the past 10 years, says similarly that employers are usually looking less for specific skills than for dependability, a willingness to accept supervision, and trainability.

GAIN tries to teach welfare recipients "what employers want," Kuhlman says, "what are the questions that might be asked" in a job interview. "They learn how to call people and set up interviews. It's scary at first, but they get used to it."

The idea behind both STRIVE and GAIN is to move people into jobs of some kind as quickly as possible, in the belief that, in Harrison's words, "the best training for work is work itself."

William G. Little, president and CEO of Quam-Nichols Co., Inc., in Chicago, says that employers can contribute to that "training" by making clear what they expect from the welfare recipients they hire. "People, regardless of what their backgrounds are, tend to live up to expectations," he says. "If you have high expectations of these people, if you bring them in expecting that they're going to succeed, an awful lot of them will."

Quam-Nichols—a 150-employee firm that makes ceiling loudspeakers for commercial, industrial, and institutional use—has been in an inner-city neighborhood for most of its 70-plus years, Little says, "so a lot of the applicants we see on a regular basis have been recipients of some sort of public aid. For years, we have hired those people and had great success with them as employees."

The reason for that success, says Little—who is vice chairman of the U.S. Chamber of Commerce's board of directors—is that Quam-Nichols has "very good processes and very strong practices." A new employee is "sitting next to somebody who is used to coming to work every day and hasn't missed a day for 20 years," he says. Thanks to what Little calls "a very strong culture within the organization," new employees know immediately what's expected of them.

(For more on small business providing jobs for welfare recipients, see "In The Trenches Of Welfare Reform," January.)

The Task Ahead

A focus on building employee attitudes may actually become more important as the welfare rolls shrink—because the aid recipients with the best attitudes will probably already have landed jobs.

"The initial stage of welfare reform may be relatively easy—that's what we're seeing," says LaDonna Pavetti, a senior research associate at the Urban Institute, a public-policy research organization based in Washington, D.C. "Then the task becomes much harder."

There's another reason to put increased effort into moving welfare recipients into jobs. As John Damschroder, special-projects director for the Ohio Department of Development, points out, the tight labor market makes putting welfare recipients to work a virtual necessity—otherwise economic growth will be jeopardized.

"Our employers are really crying for people to work," he says. "Unless we start solving the welfare-to-work issue, we're running on empty." NB

By The Numbers

The welfare reforms instituted by 43 states in recent years, with the blessing of the federal government, have coincided with sharp drops in welfare caseloads all across the country. Between 1993 and 1997, the number of people on welfare fell by 20 percent—or 2.75 million.

The White House's Council of Economic Advisers, in a report issued in May, said that the strong U.S. economy deserved the largest share of the credit for the decrease, but the study also estimated that states' reforms accounted for about 30 percent.

As the 1996 welfare-reform law, the Personal Responsibility and Work Opportunity Reconciliation Act, continues to take effect in stages, including the imposition of work requirements and time limits on benefits, other states may start seeing results like those in Wisconsin. In that state, a pioneer in requiring welfare recipients to undergo training and to work for their benefits, the caseload has fallen by more than half in the past 10 years.

FINANCE

Offering Women A Lending Hand

A two-year-old program is helping women entrepreneurs with good credit records obtain loans and lines of credit.

By Sharon Nelton

PHOTO: [illegible]

Financing *from a program for women is helping Sandra Hott expand Allied Box Co. in Indianapolis. In the background are employees Tim Sloan, center, and Daron Cassidy, who is Hott's husband.*

At first, it seemed just too good to be true. Sandra L. Hott, the owner of a small business in Indianapolis, had been refused financing by so many banks—"at least five or six," she says—that she could hardly believe a bank half a continent away on the West Coast was willing to lend money to her firm. What's more, the bank was willing to do so without requiring that she supply collateral, copies of the firm's tax returns, financial statements, or a business plan.

Hott had found the Women's Lending Program, a joint initiative launched in 1995 by San Francisco-based Wells Fargo Bank and the National Association of Women Business Owners (NAWBO), based in Silver Spring, Md.

Or rather, the program had found her—through a direct-mail piece announcing the availability of business credit. "Of course I applied for it," says Hott. "I didn't think I'd get it because I was so used to being turned down by banks."

But Hott had an excellent personal credit record and had run her own business since 1989. On the strength of that, Wells Fargo approved a $20,000 line of credit for her firm, Allied Box Co., which sells surplus and used boxes and other packaging supplies. Hott has used the line primarily for emergencies—the first time was last year when she needed $4,000 to have a truck repaired.

An Expanded Commitment

The Wells Fargo-NAWBO program was started with a commitment to lend women who own small businesses a total of $1 billion over three years. But the response was so strong that Wells Fargo lent the $1 billion in a year. This year the program was expanded to a $10 billion commitment over 10 years.

"It was obviously a success with the customers and obviously something that we at the bank were very proud of and pleased with, and so we wanted to continue the program," says Lucile Reid, executive vice president of Wells Fargo's Business Banking Group.

Women can get various types of credit under the Women's Lending Program, including equipment loans secured with inventory. But Reid says the most popular product is the BusinessLine, an unsecured line of credit for amounts as low as $5,000. Credit extended by mail or over the phone is limited to $50,000. Otherwise, says Reid, there's no maximum.

More than 50,000 women entrepreneurs have received credit under the program, according to Reid. Lines of credit typically range from $23,000 to $27,000. Reid says the bank is finding that loans to women business owners are no riskier than loans in general.

The Requirements

The program seeks women entrepreneurs who have good personal and business credit records, who have been in business at least two years, and who have a profitable company with an established bank account. Applicants should not have declared bankruptcy within the past 10 years.

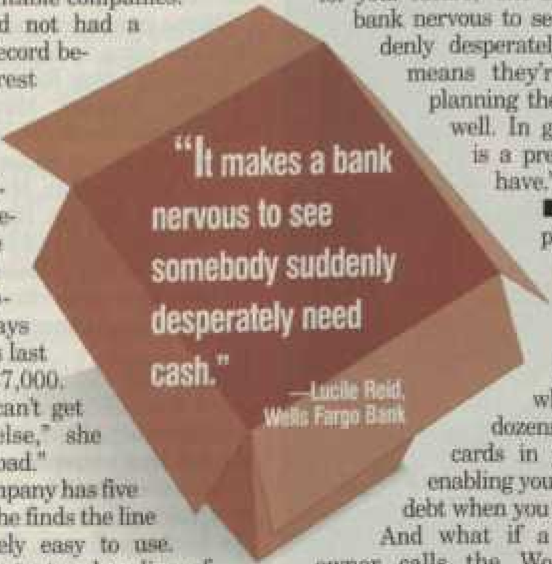
You don't have to be a member of

NAWBO to qualify. The one-page application asks about 20 questions, such as the type of business, when it was founded, and its annual revenues. The credit-approval decision, says Reid, is based on "publicly available data plus the information provided by the business owner."

The business owner's upfront expenses, including a fee to open a line of credit and an annual fee, can run as much as $150 to $250, depending on the amount of the line.

Interest rates range from the prime rate plus 1.75 percent to prime plus 6.75 percent. The lower rates, says Reid, go to applicants with the best personal and business credit records and to older, larger, more profitable companies.

Hott, who had not had a business credit record before, pays interest at the higher end—14.75 percent, according to a recent billing statement. "That's the only thing that I was disappointed about," says Hott, whose sales last year were $287,000. But "when you can't get help anyplace else," she adds, "that's not bad."



Hott, whose company has five employees, says she finds the line of credit extremely easy to use. When she needs to tap her line of credit, she writes a check provided by Wells Fargo and deposits it in her business checking account. At first, it seemed too simple, Hott says. "I kept thinking, 'This just can't be.' I kept calling Wells Fargo and asking, 'Now are you sure I can just write a check?'"

She believes the credit line is helping her to establish a good business credit track record. If she had not had it available to help pay bills on time on occasion, she says, suppliers might have cut her off.

She had borrowed as much as $15,000 against the line but has recently paid it down to under $12,000. She says she doesn't like to run up the debt, "but it beats the heck out of paying [creditors] late and tarnishing your credit."

Points To Keep In Mind

Wells Fargo's Reid offers two pieces of advice to women who are seeking financing:

■ Apply before you actually need the money. "It indicates that you are planning for your future," she says. "It makes a bank nervous to see somebody suddenly desperately need cash. It means they're probably not planning their business very well. In general, planning is a pretty good skill to have."

■ Maintain a good personal and business credit history. Pay bills on time. And remember that banks get edgy when you have dozens of unused credit cards in your possession, enabling you to run up a lot of debt when you get into trouble.

And what if a male business owner calls the Women's Lending Program and asks for credit?

Reid laughs and replies: "We lend to men, too." NB

This story is part of a continuing series on ways that small companies can locate the financing they need to run their businesses.

Credit $ources

To apply for a line of credit under the Women's Lending Program sponsored by Wells Fargo Bank and the National Association of Women Business Owners, call 1-888-767-2444. Additional information about the program is available through NAWBO chapters across the country or from the headquarters at (301) 608-2590.

Another women's business organization, Women, Inc., in Sacramento, Calif., has announced an alliance with Bank of America to enable its members to obtain unsecured lines of credit and loans ranging from $2,500 to $100,000. For information on financing or on Women, Inc., call 1-800-930-3993 or (916) 448-8444.

Business Capital for Women: An Essential Handbook for Entrepreneurs, by Emily Card and Adam Miller (Macmillan, $16.95), offers guidelines on finding money, understanding financing, and using capital in a business.

For information on technical and financial assistance available through the U.S. Small Business Administration, contact your nearest SBA office, or call the SBA Answer Desk at 1-800-827-5722. You can also access the SBA's Women's Business Ownership Internet site at *http://www.sba/gov/womeninbusiness*

Taking Care Of Local Business

Three communities show how the nurturing of local companies can pay big dividends in job creation and economic growth.

By Dale D. Buss

When Matt Hoffman was 16 years old and a world champion in the rough-and-tumble, teen-geared sport known as BMX bicycling, no one needed to tell him how to perform a flip off the vertical face of a show ramp. But four years ago, when the Oklahoma City native turned 20 and decided he wanted to establish a company to manufacture and market his own cycles, he knew he was out of his league—and he cast around for help in getting his business off the ground.

"I was so young, and my experience at actually managing a production company was nil. I needed someone who believed in the abstractions of where I was coming from and was willing to help me get the resources to pull it off," Hoffman recalls.

That's when Susan Urbach, regional director of the publicly funded Small Business Development Center downtown, and Jim Peterson, a consultant for the Oklahoma Department of Commerce, entered the scene after Hoffman called Urbach upon the recommendation of a bank loan officer. Urbach and Peterson got to know Hoffman, embraced the fledgling entrepreneur's dream, and coached him through qualification for a $40,000 loan from the U.S. Small Business Administration.

Now, Hoffman Bikes employs 17 city residents, exports its brand of BMX bikes to more than 40 countries, and has moved from the run-down former warehouse it occupied in central Oklahoma City to a refurbished, 10,000-square-foot facility nearby that includes indoor ramps and an obstacle course.

PHOTO: DAVID FITZGERALD

Oklahoma City's *support network for small businesses helped set the wheels of success in motion for Matt Hoffman's bicycle firm.*

To be sure, making a city a great place for entrepreneurs such as Matt Hoffman takes a special person or two. It also requires a healthy economic infrastructure, demands effective cooperation among various public and private entities, and can even hinge on some factors that fate decides, such as geography and climate.

Just as important, however, experts say, is an atmosphere that encourages small-business owners, whether they consider themselves growth companies or mom-and-pop operations. Small firms need to know that their economic and social contributions to a metropolitan area are highly valued.

In the long run, nurturing local companies can pay big dividends in job creation and economic growth.

"Home-grown companies are the ones that are going to make a difference in a community," says Raymond Smilor, CEO of the Ewing Marion Kauffman Foundation Center for Entrepreneurial Leadership Inc., a philanthropic organization in Kansas City, Mo. The center was established by the late founder of the Marion Labs pharmaceutical empire and owner of the Royals baseball franchise.

Here's how three cities have gone about trying to become havens for entrepreneurs:

Kansas City

You'd practically have to be a recluse in this gleaming Missouri metropolis to miss the fact that entrepreneurs are important here. A prodigious amount of energy goes into making them VIPs. And it shows up in the business climate. The metro area, including adjacent Kansas City, Kan., ranks 25th on the current list of "entrepreneurial hot spots" compiled by David Birch, president of Cognetics Inc., a research firm in Cambridge, Mass. That's up nine slots from 1994.

Kansas City business owners are stroked vigorously and visibly throughout the year in various ways, including a high-profile Small Business Week observance each spring. Two years ago more than 700 people braved an 18-inch snowfall to show up at the breakfast where the area's Small Business of the Year was honored by the Greater Kansas City Chamber of Commerce.

Nearly every local institution having anything to do with business gets into the sponsorship act, including the weekly *Kansas City Business Journal.*

The rewards of recognition for the honored entrepreneurs become greater every year. This year, for example, chamber sponsors sent the top 10 finalists on an expense-paid trip to Las Vegas.

"When it comes to entrepreneurs, we try to make stars out of them," says George Guastello, a chamber vice president who is responsible for small-business develop-

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Nation's Business
The Small Business Adviser

ment. "We motivate 'em, educate 'em, and celebrate 'em."

Connie Blackford, whose start-up Medical Communications Software Inc. in suburban Shawnee, Kan., was a finalist a few years ago, agrees. "It gave me a sense of pride, and then it spurred me to take the company further and further," says the former registered nurse. "At the beginning, we just employed me and my husband. Now I've got 45 employees."

But the support for business owners in the Kansas City metropolitan area, with a population of more than 1.6 million, goes way beyond cheerleading. A network that includes the Kauffman Center, banks and venture capitalists, the Chamber of Commerce, and local colleges has created and sustains program after program to back up the hype with help.

One of the most interesting efforts is spearheaded by Barnett Helzberg, who recently sold his family's national chain of jewelry stores to equity investor Warren Buffett. Helzberg strongly believes that role models are crucial for entrepreneurs, and Kansas City—home of other major family-founded successes such as Hallmark Cards and H&R Block—has plenty of them.

So Helzberg got Henry Bloch, founder of the tax-reporting service, and two dozen other highly successful, veteran Kansas City business owners to commit to long-term "mentoring" of entrepreneurs who have owned their companies for three to five years and have a dozen or so employees and $5 million to $10 million in annual sales.

"These people have good potential for future success and just need hard-core information to take their companies to the next level," says Helzberg. "Becoming strategic managers is a difficult transition for a lot of entrepreneurs, and that's what we help them do." He even paid $50,000 for all chosen entrepreneurs to attend a two-day session last year with self-help motivator Stephen Covey.

Increasingly, the five-year-old Kauffman Center—the largest philanthropy in the United States dedicated solely to promoting entrepreneurship—has become a catalyst. It sponsors a range of seminars for Kansas City business owners; it runs youth-training programs to make sure business owners have qualified employees; it contributes millions of dollars in seed capital for minority entrepreneurs; and it hosts small-business expos for the community as well as national meetings on subjects such as entrepreneurial women.

"All of these things percolate and work in concert with everything else going on here that is aimed at entrepreneurs," says Smilor, CEO of the foundation, which is building a seven-acre campus in the city. "You get a cascading effect, which has helped Kansas City become a genuine entrepreneurial force in this country."

The availability of capital to local small-business owners has mushroomed as well. For example, several venture-capital firms operate here now, compared with just one a few years ago. One of the recently formed new financiers, the Center for Business Innovation, has pioneered a productive for-profit type of business "incubator" under which it has acquired equity stakes in more than 60 companies within a 100-mile radius of Kansas City. Each company stays put instead of moving to the sort of central facility that is home to conventional incubators.

"This way, companies can grow where they naturally want to be, and we focus on providing the managerial advice and capital that can make a difference to them," says Robert J. Sherwood, president.

As intended, all of these people, groups, and programs striving for a singular goal have raised the esteem for—and of—entrepreneurs in Kansas City.

"I started this business out of my own apartment, and I was out there all alone," says Marlene Abbey, who in 1993 founded Oz Accommodations, which leases apartment space for corporations. "So the encouragement provided by stuff like this made quite a difference."

Entrepreneurs *in the Kansas City area achieve star status with the help of George Guastello, a vice president of the Greater Kansas City Chamber of Commerce; with him is Deb Turpin, owner of graphic-design firm River City Studios and co-chairwoman of the city's 1997 Small Business Week observance.*

Oklahoma City

The oil bust in the Eighties spurred this city into taking a closer look at the value of its considerable entrepreneurial base. But what really galvanized support for small-business owners here, ironically, was one of the deadliest crimes in U.S. history: the April 19, 1995, bombing of the Alfred P. Murrah Federal Building.

Fatal to 168 people, that day also brought to a halt the economy of this capital city in a metropolitan area of more than a million people. For example, though his showroom and offices are in an industrial park on the edge of the city and weren't damaged, Bill Warren's company, Warren Office Products—like thousands of others throughout the metro area—was traumatized, he says.

"Our customer base wasn't ready to do any business for a long time, and I wasn't comfortable at all going to our accounts," Warren recalls. "We were dying on the vine."

Immediately, however, the city's small-business support network took on a crucial role in putting the local economy back on its feet. The Greater Oklahoma City Chamber of Commerce, for example, set up an emergency center to help members get relief supplies, technical assistance, and counseling for handling insurance claims or delayed tax payments.

The jolt to commerce-as-usual put some marginal companies out of business. It gave others a chance to remodel and expand, however. Similarly, while the disaster stretched to their limits the local organizations that support entrepreneurs, it forged a new interdependence that has made them stronger than ever.

Now 41st on Birch's list of large-metropolitan-area hot spots for entrepreneurship, Oklahoma City nudged up a couple of spots from the previous list.

Since the bombing, for example, the cooperation among economic-development groups has strengthened businesses owned by minorities and in disadvantaged parts of

the city. Support-organization officials last year launched a concerted effort to develop new capital pools for often-underfunded women and minority entrepreneurs, and the groups started a Minority Business Development Center that is operated by the city chapter of the Urban League.

"This has made minority owners feel that there are people really trying to help them succeed, even at the price of loans and other investments in their businesses," says Valerie Thompson, director of the center.

In addition, renewed attention by small-business advocates is bringing some new economic juice to Capitol Hill, an older section of southern Oklahoma City. Last year, for example, the support network helped Linette Stroebel turn a cavernous old storefront there into a thriving center for training nursing assistants for long-term-care facilities.

A licensed practical nurse, Stroebel figured out in 1995 how she and a partner could conduct the state-regulated training for less than half the typical $1,400-per-person price charged by competitors. That got CNA Pro 2000 Inc. off and running.

But soon an investor who owned half of the business wanted to be bought out. The buyout cost Stroebel and her partner $9,000 and left them with just $22 in the company account.

Enter the city's entrepreneurial "safety net" in the person of the Small Business Development Center's Urbach, to whom Stroebel was referred by the chamber. Urbach told the partners that they would have to file for protection in bankruptcy court or secure a big loan to get their books in order.

The partners decided to ask their parents to mortgage their homes, and Stroebel did likewise with some land she owns, so they were able to obtain a $39,000 line of credit. Thereafter, Urbach came in to help after hours for 10 days in a row, tutoring the partners on tax and management issues and setting up their computer.

"She saved us from utter failure," says Stroebel. "And now we've put 180 people to work, 60 percent to 70 percent of whom were previously on [welfare]."

A few miles away in the gentrifying Paseo section of town, Bridget and Lee Foster currently employ only a few part-time workers, but their young business is growing thanks to Urbach's intervention. The Fosters are a Generation X couple who silk-screen Lee Foster's designs onto T-shirts, sweat shirts, vests, and other apparel in a refurbished but cramped house next door to their home.

Last year their apparel was selling well, and giant customers such as department-store chains Dillard's and Jacobson's saw them at trade shows and began to place bigger and bigger orders. The Fosters were excited about the opportunity to expand but didn't see how they could afford to do so; they were still struggling to pay for T-shirt supplies c.o.d., which they did with a credit card. The one thing they didn't want was to go further into debt.

"But Susan hit us with the fact that as long as we'll be in business, we'll be in some sort of debt," Bridget Foster says. Last year, Urbach helped arrange a loan for Foster Classics to fund the purchase of a larger silk-screening machine, as well as a revolving line of credit. Last year the company grossed about $250,000, compared with about $150,000 the year before.

While Urbach helped make the difference at the right moments for Stroebel, the Fosters, and Hoffman's bike business, she talks up the value of integrating relationships and programs in helping a city's small-firm owners. "Cooperation among all the entities is essential," she says.

PHOTO: DLOHB WHO

In Toledo, Ohio, *a technology consultant helped David Waltz's umbrella company weather the storm of foreign competition.*

Toledo

This northwestern Ohio community with a metro-area population of more than 600,000 has not been synonymous with entrepreneurship for a long, long time. Rather, Toledo is known mainly as the home of the Jeep and as the current or former headquarters of seven Fortune 500 companies.

It's still not a hotbed of small-business ambition (ranking 55th on Birch's current list of small-metro-area hot spots), a reality that many here are quick to acknowledge.

"Toledoans just haven't recognized the importance of entrepreneurship," says Linda Fayrweather, regional director of the Small Business Development Center in Toledo. "They've been too used to having other people—like the big companies here—fix their problems."

But bit by bit, the economic-development leaders of Toledo are activating their vision of a local economy that leverages its legacy of industrial might and technological prowess into an expanding array of new opportunities for entrepreneurs, especially those involved in manufacturing.

Take the case of David Waltz, president of Haas-Jordan Inc. For decades, the family-owned company had been a major supplier of high-quality, low-cost umbrellas to markets around the world. But over the past several years, as in so many other industries, lower-cost foreign competition made it nearly impossible for the company, which has about 50 employees, to compete on price. And while David and his brother and co-owner, Thomas, had a number of new-product ideas, they didn't have enough capital to develop them.

At that point a couple of years ago, a timely cold call was made by Jim Matzinger, then a field engineer for the Center for Technology Commercialization, a division of the Edison Industrial Systems Center, a statewide, public-private consortium of technology-information consultants. Matzinger let the Waltzes know that the partnership could help them get local industrial testing and prototyping services that they couldn't

obtain or afford on their own. He served as a sounding board and enthusiastic go-between for Haas-Jordan and local tool-and-die shops and other resources.

The company quickly was able to obtain wind-tunnel testing of a new umbrella-handle design—at a cost of $2,400 and in four weeks, compared with the $3,000 and 12 weeks it otherwise would have taken. Haas-Jordan also was able to fashion a prototype of a new golf umbrella (for $2,000, compared with $10,000 that the company couldn't afford to spend), and obtained the design for a semiautomated process that allows the company for the first time to meet customer demands for larger company logos on golf umbrellas.

"That project would have cost us three or four times as much to do on the outside," says David Waltz. Adds Thomas: "The great thing was that we got to tap into the expertise of outside sources and get help that a company of our size could in no way afford to have in-house. And we didn't have to pay for it until successful completion of the project."

With a base of more than 500 tool-and-die shops in the Toledo area, Matzinger says, he's expanding this type of help to the many other small local manufacturers who can use it in very entrepreneurial ways.

"It's a great way for us to exploit the great industrial resources that this community has to help grow the businesses that are going to be so vital to us for the future," says Matzinger, who recently was named director of the Center for Technology Commercialization.

Other examples of this approach abound. For example, a new partnership of the Port Authority of Toledo, the state government, and local banks is issuing bonds to finance capital-equipment purchases by small, local manufacturers.

A new and informal network of women business owners has begun helping one another prosper, says Fayrweather, the Small Business Development Center director.

And several members of the growing entrepreneurial-support network have come together to establish the Edison Industrial Systems Center, which acts as an incubator for technology- and manufacturing-based businesses. The center is housed in a facility formerly used by Toledo Edison Co. for research and development.

"During the last 10 years, a lot of the big companies here have gone through re-engineering and let a lot of people go," says Julian A. Gravino, president and CEO of the center. "But some of them have turned around the downsizing and become entrepreneurs, and we're here to help them get their dreams to the commercial stage."

Says Rick Weddle, president of the Toledo Regional Growth Partnership, a coalition of public and private entities pushing the area's economic development: "We don't look like a great community for new businesses, because we don't have a high number of incorporations. But then, we're not just churning business start-ups either, like some communities. And if a business has roots here, or takes root, we're determined to make sure it has the best chance of surviving and growing."

Increasingly, that's what economic development is all about: the care and support of small, home-grown companies that have the potential to expand. NB

Boosting Entrepreneurship

Economic-development experts cite a variety of principles that they say cities can adopt to become entrepreneur-friendly. Among the recommendations:

Balance Your Efforts

Jeffrey Finkle, executive director of the Council for Urban Economic Development, a nonprofit group based in Washington, D.C., suggests that 70 to 80 percent of a city's economic-development efforts should be used to foster the existing base of businesses, with the rest split between recruiting smokestack industries and "growing new entrepreneurs."

Build The Right Infrastructure

This includes programmatic measures such as keeping taxes low and paperwork to a minimum. But it also includes more-demanding tasks such as ensuring that the education system is solid and that there's an ample supply of well-trained workers for small-business owners, who increasingly find themselves strapped for qualified labor.

For example, Louisville, Ky., has risen in stature as an entrepreneur-friendly city in large part because Mayor Jerry Abrahamson made a priority of improving the education system, says David Birch, president of Cognetics Inc., a leading repository of information about entrepreneurial success in the United States.

"If you don't have the talent base, it doesn't matter what else you do," says Raymond Smilor, CEO of the Ewing Marion Kauffman Foundation Center for Entrepreneurial Leadership Inc. in Kansas City, Mo.

Make Capital Available

In survey after survey, existing and aspiring small-business owners alike say that lack of access to capital continues to trip them up more than anything else.

Smilor says that any major metropolitan area encompasses enough financial resources to address this problem but that getting the various sources of funds to work with one another is often a big challenge.

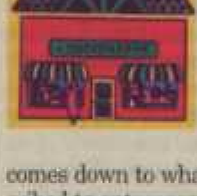
Establish Multiple Partnerships

Economic-development fiefdoms based on varying government jurisdictions or on distinctions of corporate versus public versus academic responsibilities must be melted away.

And insist that big business come to the table. Major corporations can play a crucial role in creating the right climate for small-business owners—and vice versa. For example, a large company's knowledge of job opportunities among local entrepreneurial firms can help the spouses of incoming relocated executives find challenging jobs.

Develop An Attitude

City leaders must decide to make entrepreneurship a priority for the long haul. If the city develops into a haven for business ownership, its reputation will help sustain its success.



"It manifests itself in what kids decide to do with their education," Birch says. "It comes down to what social status is ascribed to entrepreneurs. Do you live somewhere where your father can be proud of you because you own a shoe store?"

Making It

Growing businesses share their experiences in creating and marketing new products and services.

A Bridge To The Future

By Carla Goodman

It's not unusual these days to find a female entrepreneur donning a hard hat to oversee work at a construction site. But when the woman is a Chinese-American who holds a doctorate in molecular biology and runs a company that's tapping the seismic-retrofit market, she's bound to stand out.

"Being a woman in a very male-dominated industry gives us a lot of visibility," says Gloria Ma, CEO of XXsys Technologies in San Diego, a company that alters structures to strengthen them against earthquakes. "When I meet potential customers, they remember our company's technology, and they remember who I am."

Ma, 49 and a native of Guangzhou, China, decided midway through her doctoral studies at the University of California at San Diego (UCSD) that business held more appeal than a career in genetics research. After seven years managing her family's real-estate-development company, Zealot, Inc., in San Diego, she founded The Expert Systems Technologies, Inc., in 1985, to supply ultrasonic technology for developing composite materials—lightweight, high-strength engineering materials combining alloys, plastics, and ceramics—for military use in planes, rockets, and missiles.

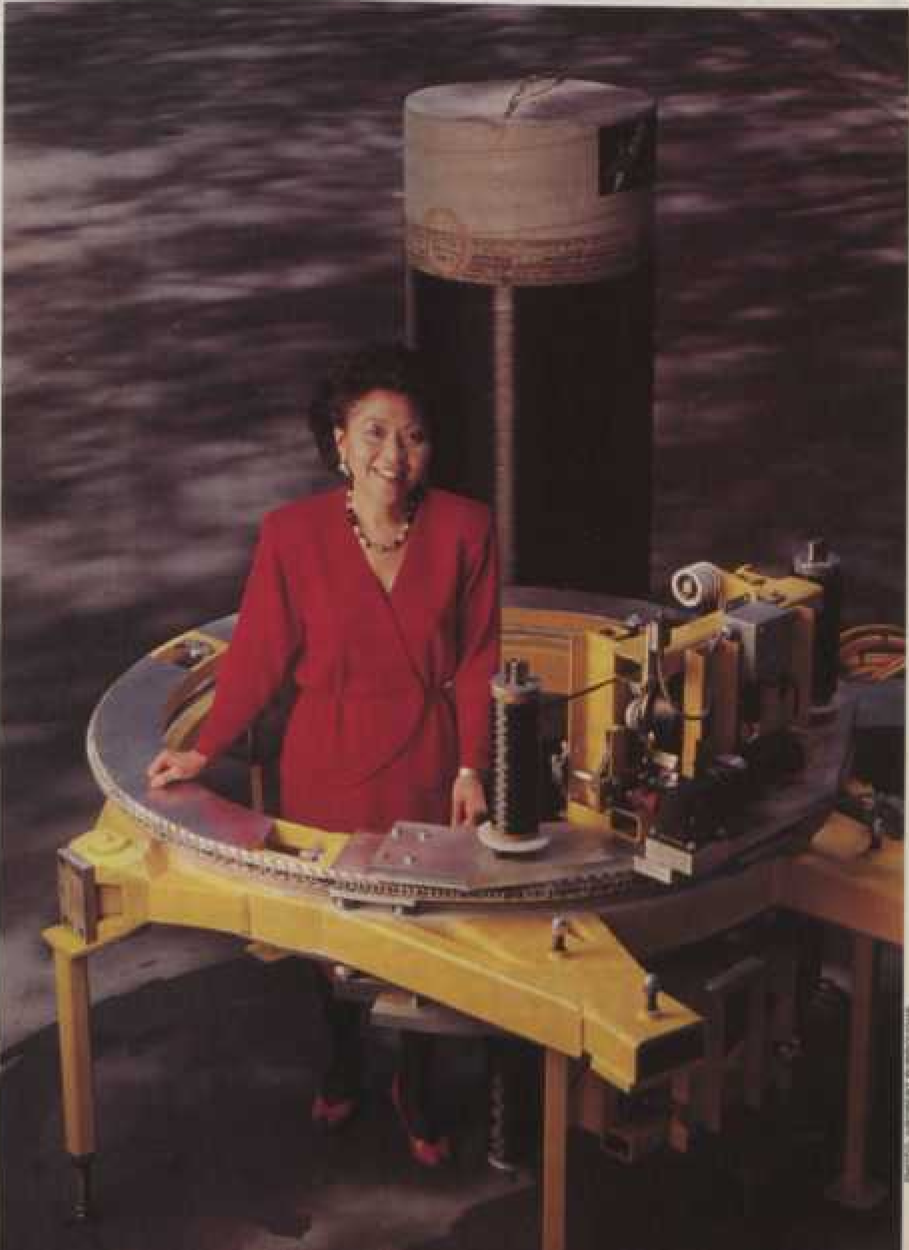
The firm shortened its name to XXsys Technologies and went public in 1992, just as the defense and aerospace industries were scaling back. Ma tapped UCSD connections to find a new market.

XXsys helped found the Advanced Composite Technology Transfer Consortium, a group of companies whose aim is to pursue commercial and public-works applications of government technologies. In 1993, the consortium won $10 million in federal defense-conversion funds to design an overpass using composite technology. The two-lane bridge would be built over Interstate 5 to connect UCSD's east and west campuses.

A pioneer *in earthquake-resistance technology, Gloria Ma's company designed and patented the Robo-Wrapper.*

The project, led by UCSD, prompted Ma to investigate applying carbon-composite technology to the seismic-retrofit market. The result is XXsys' solution for retrofitting steel or concrete columns supporting freeways and bridges to strengthen them against earthquakes and corrosion. XXsys designed a carbon-composite jacket composed of a continuous carbon fiber. Resin is injected into the fiber, which then is wrapped around a column by the Robo-Wrapper, a computer-controlled machine designed and patented by XXsys. The finished jacket is heat-cured to transform it from a pliable state into an ultrahard shell.

Raw carbon fibers are expensive—about



$15 a pound, compared with about 60 cents a pound for raw steel—but Ma says they have many advantages: They have no seams or joints, they don't corrode, and they are as thin as a human hair but 10 times stronger than steel. In addition, Ma says, carbon jackets can be installed five to 10 times faster than steel jackets.

"For these reasons, we can compete with steel very effectively, even though my material is more expensive," says Ma.

XXsys achieved a major inroad in April 1996 when it became the first company to have a carbon-composite technology approved by the California Department of Transportation (Caltrans) as an alternative technique in seismic retrofitting. Last August, XXsys received a $50,000 contract from Caltrans to retrofit six bridge columns on I-5 in San Diego County. The contract, says Ma, opens the door to an estimated $1 billion in California bridge-reinforcement work. XXsys also won its first commercial contract—to retrofit 32 columns of a parking structure at a Newport Beach mall.

XXsys, with 30 employees, had revenues of $409,000 in 1995 and nearly $570,000 in 1996, and it expects to turn a profit by 1998. The firm hopes to win contracts not only in other states, where it holds demonstrations, but also overseas. Last year Ma took part in a Federal Highway Administration-sponsored tour of foreign countries to assess markets for the application of carbon composites. "Everywhere I looked," she says, "I saw opportunities." ■

Carla Goodman is a free-lance writer in Sacramento, Calif.

No Strings Attached

By Steve Bates

In February, when David Wisniewski won the coveted Caldecott Medal for best children's book illustrations of 1996, it meant more than just the promise of new book contracts and higher royalties. It underscored how very far he and his wife, Donna, had come since they joined forces in labor and in love two decades ago.

She was a graphic artist, working for design studios in Washington, D.C., but she was exploring puppetry on the side. David, a former clown with the Ringling Brothers and Barnum & Bailey Circus, applied to join Donna's puppet team. It seemed like a perfect match—so much so that David persuaded Donna not only to hire him but eventually to break off her unofficial engagement to another puppeteer and marry him instead.

The couple soon developed their own brand of shadow puppetry. Centuries old but virtually a lost art today, it features flat, jointed, cut-out figures projected in silhouette on a screen to tell a story.

The Wisniewskis' company, Clarion Shadow Theatre, based near Frederick, Md., was established in 1980 with $3,000 and boundless enthusiasm. They started performing in parks, in schools, and in poverty. "People would say what we do scares them," recalls Donna, 50. "They would say: 'How are you going to make a living?' "

Their reputation as shadow puppeteers spread rapidly—one reviewer dubbed their work "the 'Star Wars' of puppetry"—but their gross income increased slowly from about $25,000 a year. "We had made a big splash in a little world," notes David, 44. They talked about taking their art in a new direction. And then came the kids, Ariana and Alexander, now 15 and 12. With Mom temporarily unavailable for puppetry, the company undertook one of a series of what David terms "very careful transitions."

Having developed skills in cutting intricate designs for the scenery used in the puppet shows, David attended a one-day seminar on illustrating children's books. He journeyed to New York City with a portfolio and manuscript that won a contract the first place he looked, the publishing firm Lothrup, Lee & Shepard.

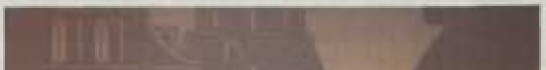


PHOTO: T. MICHAEL KEZA

PHOTO COURTESY OF CLARION BOOKS

Without a shadow *of a doubt, Donna and David Wisniewski's company has gained an artistic reputation with its puppetry and through David's children's books, including the award-winning* Golem.

Five books followed, including *Golem* (Clarion Books, $15.95), which he wrote and illustrated and which won the Caldecott award. Set in 16th-century Prague, in the former Czechoslovakia, the story features a clay giant shaped by a rabbi to vanquish those who persecuted the city's Jews. Created in layers, separated by plastic foam, and photographed at angles to highlight shadows, the intricately cut illustrations forge a unique, layered look that virtually jumps off the page.

The artistic and financial success suggests that David's books will be the couple's top moneymaker for the foreseeable future.

The frequent shift in emphasis among their various enterprises—a technique found in many successful businesses—has kept their tiny company sound. At times they have made money through shadow-puppetry; at other times it has been largely through graphic-design work; today it's books.

As the Wisniewskis learned the business of art, they discovered the art of business. "They understand that theater must succeed as a business if it is to survive as art," says Eric Sepler, a longtime acquaintance who owns Kinetic Artistry, a supply store in Takoma Park, Md.

The couple say that their annual income from all three sources could reach the $200,000 range soon. But they add that they won't forget the virtues of hard work and flexibility. David often can be found hunched over his drawing board after midnight, surrounded by tiny scraps of colored paper generated during hours of work with an X-Acto blade. His motto is simple: "Everything yields to diligence." NB

Rejuvenated Resales

As franchising matures, sales of existing units are emerging as an appealing option for some franchise buyers.

By Roberta Maynard

When Jim Dickson decided to leave the corporate world last year and start anew as a small-business owner, he bought a franchised leak-detection business in Florida. Unlike the majority of first-time franchisees, however, Dickson didn't buy a start-up business; he purchased two territories from the franchisee who owned them and was operating them.

Dickson thus became one of the growing number of purchasers of existing franchises. This type of purchase is commonly known in the franchise world as a resale or a transfer.

Resales have long been part of franchising, but as franchising has expanded to become an industry with, by some estimates, as many as 4,000 companies offering franchise units and territories, the numbers of resale opportunities have been rising as well.

And as the franchising industry accounts for an ever-increasing share of U.S. retail sales—50 percent by 2000, compared with 40 percent today, according to estimates by the Deloitte & Touche accounting firm—resales could increase correspondingly.

At any given time, about 10 percent of the franchisees in a system have their businesses up for sale. Common reasons for wanting to sell include retirement, poor health, a wish to try a different type of business, or a desire to get out of a business that has not proved to be a successful venture.

For some would-be franchisees, buying an existing franchise may be the only way to get into a large, established system where there is likely to be a shortage of available new territories. Even in less-mature franchise systems, however, a resale may be the only option for a buyer who wants to do business in a geographic area that has already been developed.

For example, about 40 percent of the sales leads that come to AmeriSpec, a home-inspection service based in Memphis, Tenn., are requests for territories that already have been sold. The company has 280 franchises.

And at American Leak Detection, a Palm Springs, Calif., company with 290 franchise locations, two of which were bought by Dickson, most resales are to people who had been on the waiting list to buy a new franchise.

PHOTO: ERIC FENRO

By searching *American Leak Detection's Web site on the Internet, Jim Dickson, left, found the listing for the two Florida territories that he bought from the franchisee. Dickson's son Todd is a co-owner.*

Help For The Sellers

Franchisors' realization of the importance of resales to the success of their systems has led many of them to take a more aggressive role in helping their franchisees who want to sell.

"If you have an owner who wants to sell—particularly for negative reasons [such as poor sales]—the franchisor wants to do everything possible to get a new owner in," says Calvin Haskell, president of Franchise Solutions, a consulting firm in Portsmouth, N.H.

Historically, most franchisors have limited their involvement in resales to reserving the right of first refusal to buy the franchise and to requiring the same approval process for resale purchasers as for buyers of new franchises, according to several franchise consultants.

While franchisors stay at arm's length from the transaction itself, they

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say, many are doing more to help franchisees find buyers and to expedite resales.

American Leak Detection, for example, lists the company's resale opportunities on its site on the Internet's World Wide Web. In fact, it was through the Web site that Dickson found the territories he bought in Orlando and Tampa, Fla.

The Dwyer Group, a franchisor in Waco, Texas, that has nine franchise businesses, recently created a department to handle resales. The company has 25 to 40 resales a year throughout its systems, which include plumbing-service provider Mr. Rooter, General Business Services, and Kitchen Wizards.

> "You want [the seller] to introduce you to customers and suppliers. You want that extra link to the past."
>
> —Franchising Consultant Michael H. Seid

"The dynamics are totally different when selling an existing business," says Robert E. Tunmire, Dwyer's president, explaining the decision to separate the resale function from sales of new franchises. For example, since existing franchises, unlike new ones, have profit-and-loss statements, he explains, "we show [franchisees] how to look at [such statements] and assets and help them determine a fair price."

Special Attention

Other franchisors pay brokers to list available franchises or have their own sales forces gather leads and route them to franchise owners who want to sell. AlphaGraphics, a printing-services firm headquartered in Tucson, Ariz., developed a transfer package with a workbook to help its franchisees assess their business's fair market value. The company also provides franchisees with an assortment of advertisements and the names of local brokers.

AmeriSpec recently turned its attention to resales upon entering its 10th year in franchising. "We had gotten to the point of being a mature business," says John Harrison, the company's president. "We thought that a growing number of our franchisees would be reaching their financial goals and preparing to get the equity out of the business."

Harrison cites the example of a former vice president of PepsiCo, Inc., who sold his franchise at a substantial profit after just six years. To help franchisees who want to sell, AmeriSpec lets them use its toll-free sales number in their advertisements.

Prospective resale buyers who call AmeriSpec are sent a package of information, and the company provides 10 packets to the franchisee to hand out directly. In addition, franchisees may bring qualified prospects to any of the four introductory meetings that the company holds around the country each month.

"We know that at some point, all franchisees will turn over," says Harrison. "We'll help franchisees get a good return on their investment and at the same time make sure we replace them with someone who can take the business to the next level."

Quick Rewards

For a franchise buyer, a fundamental potential advantage of a resale over an undeveloped territory is immediate income. Whereas a new franchise could take months or years to develop solid cash flow, an existing business already has a customer base, a local reputation, employees, and relationships with suppliers. And a buyer can look to financial statements and other sources for tangible evidence of the business's past success.

"I had the financial statements and knew there was no way [the previous owner] was tapping the potential of the franchise," says franchisee Dickson, who in his first four months in business was already well ahead of his forecast. "I knew that because I knew the way he was running the business." Dickson, who had corporate marketing experience and had run a software company, spent hours poring over the company's invoices and other documents.

Dickson also reviewed the records showing the revenues the franchisee had reported to the franchisor for the purpose of computing royalty payments. He saw a good chance for growth.

Examining The Past

A business history also helps a buyer identify weak areas, which increases the chances of success through short-term improvements and gives the buyer a framework for initial planning.

When Bob Dorfman was evaluating an existing AlphaGraphics franchise in Vienna, Va., which he ultimately purchased, he concluded that the business's costs could be managed more effectively and that staffing could be reduced. That led him to make a priority of tightening the business's cost structure and reducing staffing levels before turning his attention to building sales.

The challenge for resale buyers is to find an opportunity that has been unquestionably successful or has underperformed for reasons that are within the prospective new owner's control—poor management, for instance, as opposed to intractable problems such as poor location or intense competition.

Another consideration, particularly in buying service businesses, is the possibility of skeletons in the closet, such as unrecorded deals with customers or suppliers.

Only due diligence will tell whether an opportunity is a good one. And it is doubly important with a resale, experts say, because a buyer needs to investigate both the franchisee's business and the franchise company.

To begin, according to several franchise sources, a buyer should learn the answers to these basic questions:

- Why is the franchisee selling?
- What are the financial situations of the franchisor and the business that's for sale?
- What assets are included?
- What is the business's reputation?
- Who are the competitors and customers?

A prospective buyer should also question the franchise company on matters such as initial and continuing support, the transfer fee and what it includes, what other franchisees say about the franchise, and the company's financial history.

Other important factors, such as the franchisee turnover rate and any litigation pending against the company, can be assessed by reviewing the Uniform Franchise Offering Circular, a disclosure document that the franchisor is required by law to provide to prospective buyers. (Franchisors are required to note the number of transfers, cancellations, and nonrenewals of franchise units in their system and the number of franchises that have been reacquired by the franchisor.)

PHOTO: ©TODD BUCHANAN

Before they bought *their AmeriSpec home-inspection franchise in Chicago, Kelly and Matt Wendl made sure that the previous franchisee would be available to answer questions about the business.*

Some amount of annual turnover in a franchise system is considered healthy. But watch out when levels start to approach 20 to 30 percent, franchise consultants warn. High turnover could be an indication of a troubled system with many unhappy franchisees, or it could be the temporary result of a deliberate strategic shift by the company. A careful buyer should determine the reasons.

Expert Advice

In any franchise transaction, applicable documents should be reviewed by an attorney and an accountant. A broker can help compare similar markets and other factors that affect the value of a business, suggests Michael H. Seid of Michael Seid Associates, L.L.C., a franchise consultancy in West Hartford, Conn.

Seid recommends engaging someone

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who specializes in the particular type of business, such as restaurants or retailing, and who can evaluate factors such as customer traffic, parking, location, and competition. (See "A Buyer's Checklist," on Page 54.)

Buyers of existing franchises should also be sure about the terms specified in the contract, Seid advises. Franchisees generally—but not always—sign a new franchise agreement.

A prospective buyer should determine also if the purchaser would get the full 10-, 15-, or 20-year agreement that is given to new franchisees in the system, or if the purchaser would be buying only the length of time remaining on the seller's contract. If it's the latter, the purchaser may not have time to recover the payment and other costs, Seid says.

Other key issues are whether the agreement calls for a royalty rate that differs from the current franchisee's rate and whether any of the agreement's conditions could affect profit potential.

In addition, franchisors sometimes have requirements for upgrading equipment or signage. A prospective buyer should ask if the facilities meet the franchisor's and the landlord's current standards and whether upgrades will be required and if so, when.

PHOTO: T. MICHAEL KEZA

An evaluation *of the AlphaGraphics printing-services franchise that he eventually bought in Vienna, Va., led Bob Dorfman to conclude that the business's cost management could be improved.*

Transition Assistance

Seid recommends spending some time working at the business before the sale. Doing so helped Dorfman, whose former executive posts included president of Host International, a service business owned by the Marriott Corp. He learned about the AlphaGraphics operation and the day-to-day nature of the printing business as well as how the individual franchise was being run.

If the buyer plans to keep some or all of the employees, working there can provide early insight into each one's abilities and can let workers get to know the new owner before the sale. "They knew my willingness to get down and dirty and to be an integral part of the team," and that eased the transition, says Dorfman.

In the weeks and months following the transfer, the buyer is wise to make good

use of the seller's expertise. In a typical resale, the seller is available to the buyer for a specified time after the sale, whether to work on the premises for a while or simply to remain reachable by phone as needed. AlphaGraphics recommends that the seller stay on for at least 60 days. Some franchisors require some level of after-the-sale involvement by the seller.

When Joe Sarfati, 67, sold his American Leak Detection franchise after 10 successful years in Beverly Hills and Hollywood, Calif., he took the new franchisee to several meetings of organizations with interests in swimming pools—operators of apartment-building and neighborhood pools, for example, and large pool associations. Sarfati also introduced the buyer to the business's customers.

When Kelly and Matt Wendl bought an AmeriSpec home-inspection franchise in Chicago, the purchase agreement included a requirement that the previous franchisee be available to answer questions. That helped them tremendously in the initial months of operation, the Wendls say.

A typical mistake among buyers, says Seid, is not using the seller's experience to best advantage. "You want him to introduce you to customers and suppliers. You want that extra link to the past."

Figuring The Cost

A resale buyer may pay a premium for an existing franchise if the business has been successful.

When the Wendls were shopping for a home-based business, they found that most existing franchises they considered were priced higher than new ones.

But they calculated that it ultimately would have cost more to pay for advertising to build a new business from scratch. The fact that the costs and income of an existing franchise were known quantities appealed to them. "After looking at the financials, we could budget what to expect in income, and we could see that Kelly could earn the same salary she had enjoyed as a corporate employee," says Matt Wendl.

On the other hand, Dorfman believes that he was able to buy an existing franchise for less than he would have paid for a new one because the seller "primarily wanted to get out of debt."

In addition, the franchisee's initial fee to the franchisor is usually lower for a

Finding Resale Opportunities

Resale opportunities can be found in newspapers and business magazines and through brokers and franchisors themselves. Franchisees may know of resales available in their particular system. And members of the system's franchisee association often know about a franchisee's plan to sell before the franchisor has been notified.

Many sites on the Internet's World Wide Web contain resale listings. Here are a few:

www.bizbuysell.com allows free access to its database of businesses for sale and lets you search many major U.S. newspapers' classified sections. You submit your criteria—location, cost, type of business—and the service sends you, at no charge, the best matches by electronic mail.

www.franchisesolutions.com is a confidential resale service offered by Franchise Solutions, a consulting firm in Portsmouth, N.H. For the protection of the sellers, the Web site contains descriptions of the offerings but not enough details to identify them. Information on qualified buyers who call the service is given to sellers. The company can be reached at 1-800-898-4455.

www.bbn-net.com is a multiple-listing service of businesses for sale; it includes franchise resales and broker listings.

www.betheboss.com is a directory of franchise businesses for sale. This recently unveiled site is offered by The Monster Board, one of the largest employment-related Internet sites.

www.franchise.org, the International Franchise Association's site, provides access to the IFA's directory of 2,700 franchise companies. The IFA, in Washington, D.C., can be reached at (202) 628-8000.

www.bizQuest.com lists businesses for sale nationwide, and the site is linked to the International Business Brokers Association, whose page lists brokers alphabetically by state. IBBA, in Reston, Va., also can be reached at (703) 437-4377.

Other resources include the Business Transfer Network, Redding, Calif., (916) 241-1600; the Franchise Brokers Network, Wilmington, Del., (302) 478-0200; the Institute of Certified Business Counselors, Eugene, Ore., (541) 345-8064; and International Merger and Acquisition Professionals, Atlanta, (770) 319-7797.

FRANCHISING

resale than for a new franchise. The so-called transfer fee may be a flat fee of as little as $1,500, or it could be a percentage of the selling price. For example, AmeriSpec's transfer fee is $4,000, but it charges $12,900 for a small new territory and $22,990 for a large one. The transfer fee usually includes the same training that is given to franchisees buying new territories.

"Often A Better Value"

Great values in resales can be found—especially among franchises that are regarded as performing below their potential—says industry consultant Haskell, provided the business's poor showing is attributed to the seller's inadequate management skills rather than to any unfavorable circumstances in the market. He says that in about seven of every 10 resales of underperforming franchises, the new owner succeeds in turning around the business.

"Resales will often give you a better value than a new franchise," says consultant Seid. "You're paying for goodwill [intangibles such as a company's reputation], but you know how long it will take to recover the investment."

As long as you buy with care, adds Seid, "you can make some good deals on resales." NB

A Buyer's Checklist

Buyers have to attend to many details when they purchase an existing franchise—a transaction known in the franchise world as a resale or a transfer. This checklist, based on one used by AlphaGraphics, Inc., of Tucson, Ariz., can help prospective buyers by providing insights into the transfer process.

1. Have you been given initial franchise information? ❑ Yes ❑ No

2. Have you returned an application to the franchisor for approval? ❑ Yes ❑ No

3. Have you read the current franchise agreement and the seller's franchise agreement? ❑ Yes ❑ No

4. Have you received transfer pre-training materials, including a manual, a business plan, and a competitor analysis? ❑ Yes ❑ No

5. Have you received a copy of the building lease? ❑ Yes ❑ No

6. Does the lease allow for assignment to a buyer? ❑ Yes ❑ No

7. Has the seller provided you with a sales history covering at least the preceding 12 months? ❑ Yes ❑ No

8. Have you reviewed other historical financial information provided by the seller? (This should include at least the preceding two years of financial statements and two years of tax returns.) ❑ Yes ❑ No

9. Have the necessary approvals from lenders been given if you intend to assume any of the seller's debt? ❑ Yes ❑ No

10. Have copies of contracts covering all debts to be assumed been provided to you? ❑ Yes ❑ No

11. Are you aware of the training to be received? ❑ Yes ❑ No

12. Does the seller have up-to-date figures on royalties, accounts receivable, and any other obligations due to the franchisor, and are you aware of these amounts? ❑ Yes ❑ No

13. Have you applied for the proper business licenses? ❑ Yes ❑ No

14. Have you and the seller agreed on disposition of current employees, including accrued vacation or sick leave? ❑ Yes ❑ No

15. Will you assume an existing group health-insurance program? ❑ Yes ❑ No

16. Has the seller provided evidence that major equipment is in good working order? ❑ Yes ❑ No

17. Has a copy of a final draft of the buy/sell agreement been submitted to and approved by the franchisor? ❑ Yes ❑ No

18. Does it provide a "covenant not to compete" clause to protect you from competition from the seller? ❑ Yes ❑ No

Family Business

The core qualities and the required rules for successful co-leadership; dealing with a fractured marriage.

OBSERVATIONS

The Challenge Of Partnership

By Sharon Nelton

Many signs indicate that we are entering an age of sibling partnerships and multiple cousins running family businesses. What characteristics will help the members of these groups pull off the difficult task of working together?

Useful ideas for making a co-CEO situation work are presented by Craig E. Aronoff and Joseph H. Astrachan in the article below. But we will also see more businesses owned and run by sibling teams following the more traditional model of a single leader. Either situation calls upon the partners to consciously draw on or acquire attitudes and capacities that they may not have had to use in the past.

First and foremost is a generosity of spirit, especially when they're siblings. Imagine growing up with several brothers and sisters, with all the usual rivalries and annoyances. Now you're partners, and even though your little brother is just as irritating as he always was ... well, you all have to get over it and behave with maturity.

You have to stop assuming that when he says something to you today, it has the same meaning it had when he said it as a 10-year-old. You must stop treating him like your little brother and start treating him as an equal. And that takes a generosity of spirit.

Maybe your sister said something in a meeting that really irritated you. You felt she was putting you down. Or was that just a knee-jerk reaction based on the way things were when you were both in the tricycle stage? It's better now to give her the benefit of the doubt, ask some questions, and find out what she really means rather than assume you already know just because she is your sister. That also takes a generosity of spirit.

Or suppose Mom and Dad appointed you the leader even though your brother and sister are shareholders and work in the company. True, you are a quick and brilliant thinker, and even though you love your siblings, sometimes they're a little slow, and you get impatient with them.

Does that mean you can just do as you please, moving ahead on what you know is right for the company? No, because they're your partners. You have to involve them in decision making to win and maintain their commitment to your leadership. And even though it slows you down, you have to learn to be patient with that process and with your siblings. And *that* requires a generosity of spirit.

The co-leaders of the future will need to develop what author Daniel Goleman calls "emotional intelligence." In his book *Emotional Intelligence* (Bantam Books, \$23.95), he says it means learning to be aware of one's own emotions, learning to delay gratification for a higher or longer-term goal, and developing the capacity for empathy.

Suppose you emerged as the leader of a group of cousins. Imagine that two of your cousins are also exceptionally able and had aspired to the top job. They are going to need your empathy—that is, your ability to identify with their disappointment and to respond with appropriate actions and respect. To have the will to do that will no doubt call for a generosity of spirit. ■

PLANNING

Making Co-CEO Arrangements Effective

By Joseph H. Astrachan and Craig E. Aronoff

Several of the companies we've been working with are approaching succession with a new twist. They are investigating an "office of the CEO," in which two or more members of the next generation would share the title of chief executive officer.

Can this work? Yes, although it is not as simple as having a single leader. Indeed, the American Family Business Survey '97, undertaken by the Arthur Andersen accounting and consulting firm and MassMutual—The Blue Chip Company, with the assistance of Kennesaw State University in Georgia and Loyola University Chicago, shows that 11 percent of family businesses now have co-CEOs and that an amazing 42 percent are considering moving to co-CEOs. (For more on the survey, see Page 56 of the June issue.)

Just look at Nordstrom, Inc., the benchmark retailer, where six family members of the fourth generation serve jointly as president; each has responsibility for a key aspect of the business. Issues that affect the whole business are the purview of the joint presidency. The group meets regularly behind closed doors for straightforward discussion. Votes are taken. A key rule is that even if the vote is not unanimous, the group leaves the room speaking with one voice.

Having co-CEOs may increase family unity, improve decision making, aid

Craig E. Aronoff, left, and Joseph H. Astrachan teach at Kennesaw State University in Kennesaw, Ga. Aronoff holds the Dinos Chair of Private Enterprise; Astrachan is associate professor of management and entrepreneurship. Copyright © by the Family Business Consulting Group, Inc.

FAMILY BUSINESS

succession continuity, reduce family conflict, enhance authority, and strengthen communication. But problems such as confused authority and slow decision making can result. Benefits can be achieved and detriments avoided if, before setting up an office of the CEO, the leaders agree to:

Make important decisions together and speak as one.

The notion of "I" should be erased, and the idea of "we, the CEO" must be emphasized. While CEO team members can argue in private, they must never argue publicly. Arguments can make shareholders, employees, and others feel insecure.

When employees see members of an office of the CEO voicing diverse opinions, they can become confused on whom to follow, and they may play the old game of going to the right person to get the right answer. A CEO team in disagreement will be lobbied extensively.

ILLUSTRATION: TROY THOMAS

Decide at the outset which decisions will be made by the group and how they will be made.

We strongly recommend that CEO groups use simple-majority voting on all but the most important decisions. This decreases the time needed to make a decision and helps keep arguments from becoming too personal. Certain decisions, such as those on major acquisitions or divestitures, may require a supermajority or even unanimity.

Support all decisions made by individual CEO team members.

Of course, making decisions together all the time is impossible. Every team member should have distinct, specific, and agreed-upon areas of responsibility and defined levels of authority and autonomy.

Areas of responsibility would entail all parts of the company with a measurable bottom line, or key staff areas such as finance and accounting, sales and marketing, or production and operations. Levels of authority and autonomy refer to how big a decision must be to require consideration by the entire CEO team. Usually, a dollar amount serves as a guide.

Other matters that may require consideration by the whole team are personnel moves of senior executives, discussions with the news media or any other activity that may affect the company's external image, and any activity involving shareholders or members of the board of directors.

Additional basic decisions include criteria for inclusion on the CEO team and provisions for removing team members. A meeting chairman should be chosen to manage agendas and interaction; a meeting secretary should be selected to keep a record of all meetings; and a term of office should be defined for each. Meetings should be held at least weekly.

Although we find that having more than one CEO can work, we do not recommend this structure for all—or even most—family businesses. If a family firm is blessed with several talented and compatible leaders, choosing one above others could harm the family and the business. But we also see too many situations where failing to choose one leader from several candidates paralyzes a company.

Either way—a single leader or co-CEOs—can work if the circumstances are right. But if conditions are not developed so that the right choice can be made and implemented, either way can lead to disaster for the business and the family. NB

'Musts' For Co-CEOs

- Each successor-candidate is very capable, competent, and prepared for leadership.
- Candidates share fundamental goals, values, and levels of commitment.
- In addition to general leadership responsibilities, each potential co-successor has specific areas of responsibility.
- Candidates have solid relationships with one another. They demonstrate the ability to process and resolve differences constructively.
- An experienced board of directors, including respected outsiders, holds the CEO team accountable, gives perspective, and provides a safety net—for example, helping the family to resolve disputes when it's at an impasse.

MARK YOUR CALENDAR

July 7-12, Bridgeville, Pa.

"Camp Business Cents" is a five-day program aimed at helping children in grades 1 through 8 develop business knowledge. This program focuses on money skills; a session beginning July 27 is on marketing. Call Cindy Iannarelli; 1-800-672-4639.

July 14, Chautauqua, N.Y.

"Chautauqua Conference on Family Business," for family-business owners, covers topics such as business and ethics, managing a business between generations, and succession. The conference is sponsored by Alfred University, Canisius College, and Cornell University. Call Thomas Mailey at (607) 871-2124.

July 29, Waco, Texas

"Understanding the Key Differences in the Roles of the Family System, the Management System, and the Ownership System" is the topic of a meeting of the Baylor University Institute for Family Business. Call Doris Sandberg, (817) 755-2265, Ext. 5, for additional topics and dates.

Aug. 7-10, Snowmass Village, Colo.

"The Aspen Family Business Gathering" is an informal conference for business-owning families. Call the Aspen Family Business Group at 1-800-835-5883.

Oct. 2-4, The Hague, Netherlands

"Shaping the Future of Your Family Business" is the theme of the annual conference of the Family Business Network, an international organization of families in business. Request information via fax from the Dutch Foundation for Family Business at (31) (343) 420 401, or write to the foundation at IJskelderlaan 1, 3941 HS Doorn, The Netherlands.

Oct. 15-18, New Orleans

"Family Business: Progress and Prophecy" is the theme of the annual conference of the Family Firm Institute. Futurist Francis Fukuyama will make a keynote presentation on "International Perceptions of Wealth and Their Effect on Public Policy." Call (617) 738-1591.

How To Get Listed

This list of family-business events features national and regional programs that are open to the public. Send your item three months in advance to Family Business, Nation's Business, *1615 H Street, N.W., Washington, D.C. 20062-2000.*

Case Study: His Cheating Heart

This is a lonely and frightening time for Julia Woods, 51. She recently heard that Bill, her husband of 26 years, is having an affair with his 33-year-old administrative assistant, Jeanne. Bill, 54, is the founder and CEO of a $50 million-a-year company, Woods Manufacturing. Julia and Bill have had "psychological divorces and remarriages" for years, but neither has ever taken formal steps to end their marriage.

On a visit to the plant one day, Julia inadvertently overheard Bill's secretary, Mary, talking with another employee about Bill having an affair. Jeanne, who has a reputation throughout the company as an excellent worker, is a single mother who needs her job to support her young daughter.

Julia is reluctant to confront Bill to confirm that he is having an affair. She is fearful of losing not only Bill but also her role as his wife, which provides her with financial security and prestige in the community. Although she is half-owner of the company, she never wanted to work at the plant and has spent her time on volunteer activities. She has chaired many local charity events and is admired for her organizing and fund-raising skills.

As confident as Julia is, she feels so insecure about Bill that she fears a confrontation will further hurt what relationship they do have. Their son, Stuart, 25, also works in the company. "I'm afraid of his learning about his dad's affair just like I did—accidentally," Julia says.

The health and profitability of the business have waned recently, and Julia worries that news of an affair could take the company down even further.

"How," she asks, "can I protect myself both personally and financially?"

ILLUSTRATION: TROY THOMAS

Response 1

Break The Silence

By remaining silent and keeping herself a victim, Julia is creating real risks for both the marriage and the business. Talking with a therapist or a trusted confidant could help her get the support she needs. She has some hard choices to make, but as long as she sees herself as the victim, she will be unable to weigh her options and take action. By not doing anything, she is colluding with Bill and neglecting her fiduciary responsibility as an owner.

Suzanne Stier, president of Stier Associates, an organizational-development consulting firm in New Orleans.

Julia is fooling herself if she thinks Stuart or other employees don't know about Bill's relationship with Jeanne. Information like that travels through the ether. Julia may think she is protecting her son, but it is more likely that Stuart is trying to protect his mother.

While Julia and Bill are deciding what to do about the marriage, they and Stuart need to discuss what has been going on and make some hard decisions about what to do with the business. Stuart should be asked if he eventually wants to run the company. If his answer is yes, then, as part of a succession plan, there should be a leadership- and management-development component written in to prepare Stuart. If his answer is no, or if he is not capable, they would have some options:

- The two could sell the business.
- Bill could buy out Julia.
- Julia could take an active role in the business.
- Julia could buy out Bill.

Until now, Julia has not exercised her fiduciary responsibility as a half-owner of Woods Manufacturing. Now is the time for her to take action.

Response 2

Face The Future

Office gossip aside, there is a serious problem with the relationship between Julia and Bill that Julia must now confront. Ideally, both she and Bill will agree to work through the issues together with the help of a consultant who understands both business and personal matters.

If Bill will not cooperate in this way, Julia must focus on her four options:

- Keep on doing what she has been doing—ignoring and denying—and hope that things will get better.
- Leave the marriage, negotiate a settlement, sell her one-half interest in the business, and move on with her life.
- Make an effort to rebuild the marriage.
- Stay in the relationship for now and develop coping strategies, to protect and strengthen her interests should she decide to either live in a marriage of convenience or eventually end it with a divorce.

James Olan Hutcheson, president of ReGENERATION Partners, a family-business consulting firm in Dallas.

Julia will need professional help—for example, a family-business consultant or therapist—to create a clear framework of all the issues to recognize that she will have a different relationship with Bill from now on, and to devise a solution that minimizes any negative impact on the business. This last objective is very important since Julia's future financial security may depend on the business's financial capabilities.

Last, Julia should inform Stuart that she and his father are dealing with some personal matters. She should resist the natural urge to solicit Stuart to align with her against his father. Placing Stuart in the middle of a communication "triangle" may create ill will down the road.

This series presents actual family-business dilemmas, commented on by members of the Family Firm Institute and edited by Georgann Crosby, a consulting partner in the Family-Business Roundtable, a consulting organization in Phoenix. Identities are changed to protect family privacy. The authors' opinions do not necessarily reflect the views of the institute.

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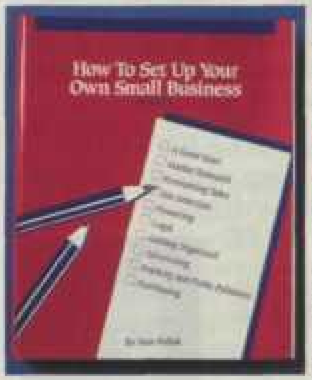

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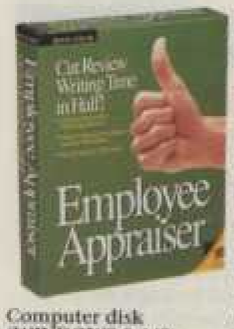

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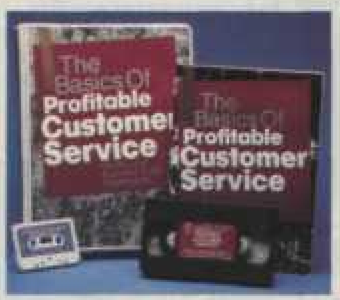

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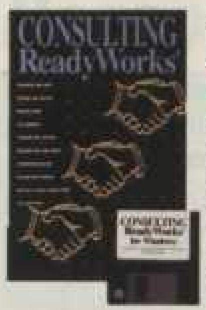

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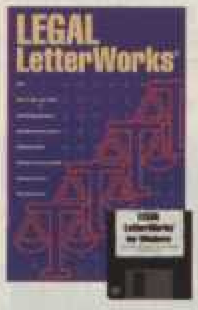

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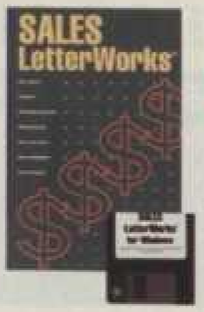

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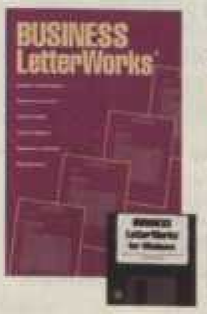

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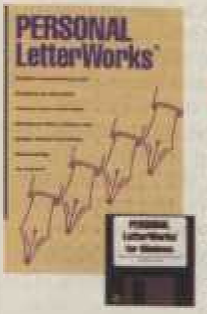

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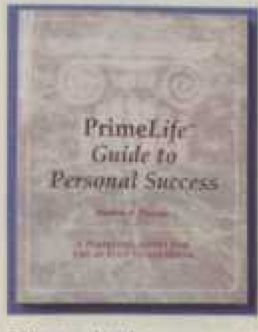

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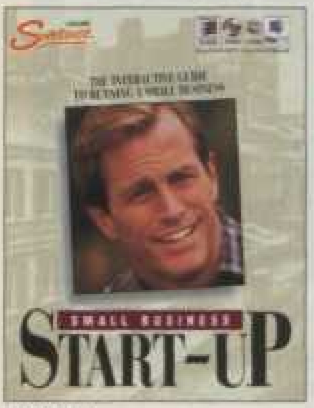

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May Poll Results

Readers' Views

No To Welfare Changes

The landmark welfare-reform legislation passed by Congress and signed by President Clinton last year should be left intact, according to an overwhelming majority of respondents to a *Nation's Business* poll.

By large margins, readers who responded to the Where I Stand poll in the May issue opposed most elements of the president's proposal for changes in the welfare measure. The proposals include easing restrictions on food-stamp eligibility and providing grants to help former welfare recipients commute to their new jobs.

Fifty-nine percent of respondents also opposed a proposal included in the new budget agreement reached by the president and congressional leaders. That change would restore some financial and medical assistance for legal immigrants who become disabled.

A 2-1 majority opposed a program to help states and cities give incentives to businesses to hire welfare recipients. But a majority favored an extension of the federal tax credits offered to businesses that hire long-term welfare recipients.

The welfare-reform law passed in 1996 abolished the federal welfare program and shifted responsibility to the states, eliminating or cutting back many of the benefits and restricting eligibility.

Here are the complete results:

Questions And Answers

Should Congress consider changes in the welfare-reform law enacted last year?

Yes 31%
No 69

Should the federal government spend $3 billion to help states and cities offer "welfare-to-work" incentives to businesses to hire welfare recipients?

Yes 32%
No 68

Should the provision on eligibility for food stamps be eased to allow benefits to able-bodied childless adults for six of every 12 months instead of six of every 36 months?

Yes 12%
No 88

Should tax credits to businesses for hiring long-term welfare recipients be increased and extended for another year? (The credits are scheduled to expire at the end of September.)

Yes 58%
No 42

Should federal grants be given to states to help finance the cost of transporting former welfare recipients to new jobs?

Yes 21%
No 79

Should some basic financial and medical assistance be restored for legal immigrants who become disabled?

Yes 41%
No 59

Where I Stand

On Spurring Economic Growth

The pace of the nation's economic growth has been slower in recent years than in earlier decades, and economists are debating the best ways to increase the growth rate. These questions seek your views on how to spur economic growth.

Results of this poll will be published in the September issue of *Nation's Business* and will be forwarded to administration officials and congressional leaders. Send the attached, postage-paid Reader Response Card. Or circle your answers and fax this page to (202) 463-5636.

1 Do you think federal policies do enough to promote economic growth?

1. Yes
2. No
3. Undecided

2 Which one of the following do you think would provide the biggest boost to business productivity and economic growth?

1. Regulatory reform
2. Improved education and training programs
3. Tax reform
4. Legal and tort reforms
5. A balanced federal budget

3 What aspect of federal regulatory reform would be most useful to you?

1. Eliminating conflicting regulations
2. Allowing more flexibility in complying with rules
3. Focusing rules more on the greatest risks to public health
4. Seeking compliance with voluntary guidelines before issuing regulations
5. Reducing the amount of paperwork associated with compliance

4 What type of reforms in education and training would be most important to you?

1. Improved instruction in public elementary and secondary schools
2. More course offerings at local community colleges
3. More locally based technical training
4. Better preparation of college students for the workplace

5 Which tax changes do you think would best spur economic growth?

1. Broadening the tax base and reducing the highest marginal rates
2. Simplifying the tax code and reducing compliance costs
3. Removing disincentives to saving and investing

6 Which of the following legal reforms do you think would best boost economic growth?

1. Limiting punitive damages in product-liability cases
2. Apportioning financial responsibility for noneconomic damages (pain and suffering) in product-liability cases
3. Setting stricter time limits for filing product-liability suits
4. Medical-malpractice reform

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Direct Line

Experts answer our readers' questions about starting and running their businesses.

By Stephen Blakely

ILLUSTRATIONS: MARTHA VAUGHAN

INVENTORY CONTROL

Keeping Parts In The Pipeline

Our excavating business needs to keep pipe and pipe supplies in inventory, which requires that we manage our inventory better. Where can we get more information about inventory control?
S.P., Lamar, Colo.

Associated Builders and Contractors, a national trade association in Rosslyn, Va., addresses some inventory-control issues in its training courses. Call the organization at (703) 812-2000 or visit its Internet site at *www.abc.org.*

Another research source is the American Production and Inventory Control Society (APICS), headquartered in Falls Church, Va.; 1-800-444-2742. Depending on the nature of your request, you may be referred to the organization's inquiry service in Rochester, N.Y., at (716) 475-2098.

You need not be an APICS member to use this service (although you will be offered the chance to join for $80 a year plus local chapter dues). Simply ask what has been written about inventory control in your industry, and the organization's staff will search APICS's extensive database.

Be prepared, however, to use your local library to track down any articles that are turned up by the database search but did not appear in an APICS publication.

A long-familiar technique in inventory control is "just-in-time" supply management, in which components are delivered to a manufacturer just before they are needed, reducing the manufacturer's requirement to stockpile materials. Many automobile manufacturers have adopted this process to curtail overhead.

The basic concept in inventory control is "MRP," says Lou Malucci, an analyst for the APICS inquiry service. MRP used to stand for "material requirements planning" but recently has come to mean "manufacturing resource planning," he says.

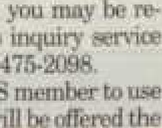
The concept has three major goals: minimize the investment required to keep supplies on hand; optimize the manufacturing process; and use labor as effectively as possible.

Depending on the business, there may be thousands of parts involved, and inventory management can become tremendously complex. Consequently, specialized computer programs have been developed to help with logistics.

Malucci says prices of inventory-control software packages, or "modules," range from $1,000 or less to $70,000 each, and some programs require several modules. ■

GETTING STARTED

Ready To Cast Off



I hold a Coast Guard pilot's license, and when I retire next year I'd like to start a boat-chartering business. Where can I get more details about the business?
B.D., Atlanta

The National Association of Charterboat Operators (NACO) in Alexandria, Va., is a major umbrella group representing the industry. To contact the group, call (703) 519-1714.

Besides management training, business development, and other services, NACO offers its members discounted insurance policies to cover the property and liability risks that come with being hired to take people out on the water. Membership in NACO costs $30 a year.

Owners of "crewed" charter boats—those who provide both the boat and the crew for fishing, diving, or sailing excursions—are represented by NACO. Those who provide "bareboat" charters, in which customers rent a boat and operate it themselves, generally are represented by the National Bareboat Charters Association in St. Petersburg, Fla.; (813) 898-0100.

In operating a boat-chartering business, it's easy to get into deep water. Federal user fees for Coast Guard inspection and certification have increased dramatically in recent years, and new federal drug-testing rules for commercial-boat operators have added a layer of regulation.

As most skippers know, the Coast Guard has strict certification requirements if your passengers pay to come aboard. For a boat that carries six or fewer passengers, the captain must pass an exam that tests proficiency in basic seamanship, navigation, and naval rules of the road; however, the boat does not have to be inspected by the Coast Guard.

Once a boat takes on more than six passengers, the skipper must pass a more difficult exam to obtain a Coast Guard license, and the boat must undergo a rigorous inspection for seaworthiness and be fitted with safety equipment, which can be expensive. The Coast Guard's Internet site, at *www.dot.gov/dotinfo/uscg*, provides more details.

Last, chartering invites potential conflict and liability if customers go away unhappy, even if it's only because of seasickness or a poor catch; some customers just don't like to pay to be miserable. Be sure you have appropriate insurance coverage. ■

HOW TO ASK

Have a business-related question? Mail or fax your typewritten query to Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062-2000; (202) 463-3102. Or transmit your question to our CompuServe address: 76436,1735. Be sure to include your address and telephone number.

Because of the high volume of letters, we can answer only those that are chosen for publication. Questions may be condensed, and writers will be identified only by initials and city.

ROBOTICS

Getting Things Under Control

I own an electronics company, and I have developed a microcontroller for robotics, toys, and process systems.

Where can I get more information about those industries?

R.H., Los Angeles

The information clearinghouse for this sector is the Robotic Industries Association (RIA) in Ann Arbor, Mich.; (313) 994-6088, or *www.robotics.org* on the Internet.

One of the RIA's most popular member services is its annual *Robotics Industry Directory,* which lists robotics-related companies and suppliers in the United States, cross-indexed by type of use (appliances, automotive, or toys, for instance) and location. The directory is free. RIA membership fees vary by size of company.

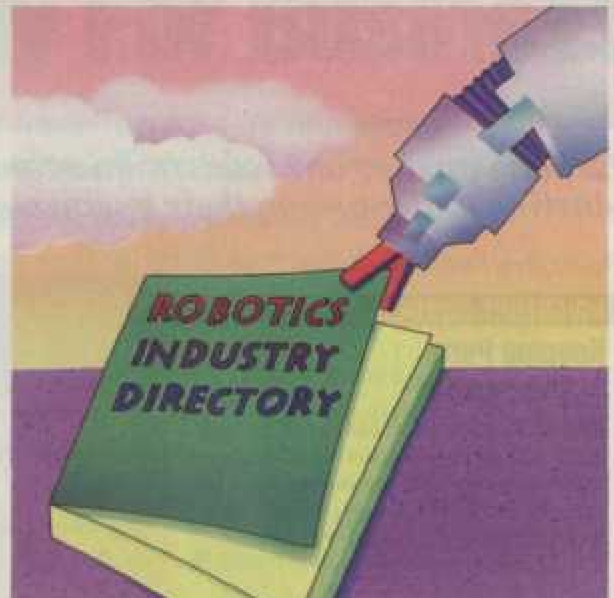
The RIA sponsors the International Robots & Vision Show and Conference, which took place in May in Detroit, and the annual Robotics Industry Forum, to be held in October in Orlando, Fla.

In addition, at least two major professional organizations have interest groups devoted to robotics issues.

The Institute of Electrical and Electronics Engineers, based in New York City, has a Robotics and Automation Society. For information, call the institute at 1-800-678-4333 or check its Internet site at *www.ieee.org.*

The Society of Manufacturing Engineers in Dearborn, Mich., has a Robotics International Association; call 1-800-733-4763 or check *www.sme.org* on the Internet.

According to the RIA, U.S.-based robotics companies hit a milestone in 1996 when they posted more than $1 billion in new orders—up nearly 25 percent from 1995. Sales this year are expected to remain strong.



The RIA estimates that 72,000 robots are at work in U.S. factories and that 56 percent of these robots are used in spot-welding and material-handling applications. Automobile manufacturing is the industry making the most use of robots (typically for welding), but the electronics industry, because of miniaturization, is rapidly increasing its use of robotics technology. Many of the components in pagers, cellular phones, and radios have become so small that human hands can no longer accurately solder the parts. NB

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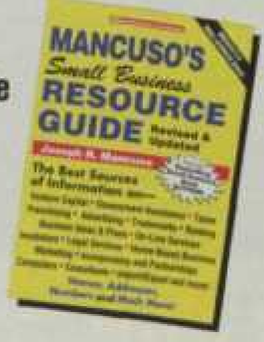

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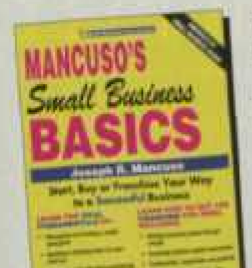

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Editorial

Light At The End Of The Budget Tunnel

President Clinton took office in 1993 committed to a balanced budget, which Republicans also put high on their agenda when they took control of Congress in 1995.

But the red ink continued at flood stage because the White House and Congress could not agree on how to shut it off. That impasse continued into the current year, when a major breakthrough was achieved. Clinton and the Republican leadership of Congress agreed on a compromise plan to balance the federal budget by fiscal 2002. Each side gained some of its objectives, but neither achieved everything it wanted.

The GOP gained long-held goals such as reductions in capital-gains and inheritance taxes, a $500-per-child tax credit, and expanded eligibility for individual retirement accounts. Clinton won agreement on social aims such as tax relief to help defray the cost of a college education.

What made such a compromise possible after more than four years of bitter, partisan conflict, during which the nation's fiscal problems only got worse?

Senate Budget Committee Chairman Pete V. Domenici, R-N.M., says the agreement was the result of a clear message from the grass roots "to work together when the interests of the American people are at stake. ... Do not fight all the time."

The balanced-budget plan, he says, "will force the federal government to finally live within its means. It ... will reduce government spending by some $320 billion in the next five years and ... will also give families relief by cutting gross taxes ... by $135 billion in the first five years."

The promise of such results has not gained unanimous support for the agreement on Capitol Hill, however. The compromise has come under fire from both ends of the political spectrum in Congress. House Minority Leader Richard Gephardt, D-Mo., broke with Clinton on the legislation. Gephardt argued that the tax aspects favor the wealthy while spending provisions harm education, health care, and capital projects.

On the other side, Sen. Phil Gramm, R-Texas, charged that the plan goes too far in creating and expanding social programs and that its pledge of eventual fiscal balance is unrealistic.

None of the architects of the plan has argued that it is perfect or that it can resolve all the fiscal problems under which the nation has labored for too many years. Indeed, House Budget Committee Chairman John R. Kasich, R-Ohio, said during debate: "No one should think for a second that this is the end of the game. Frankly, this is just the beginning."

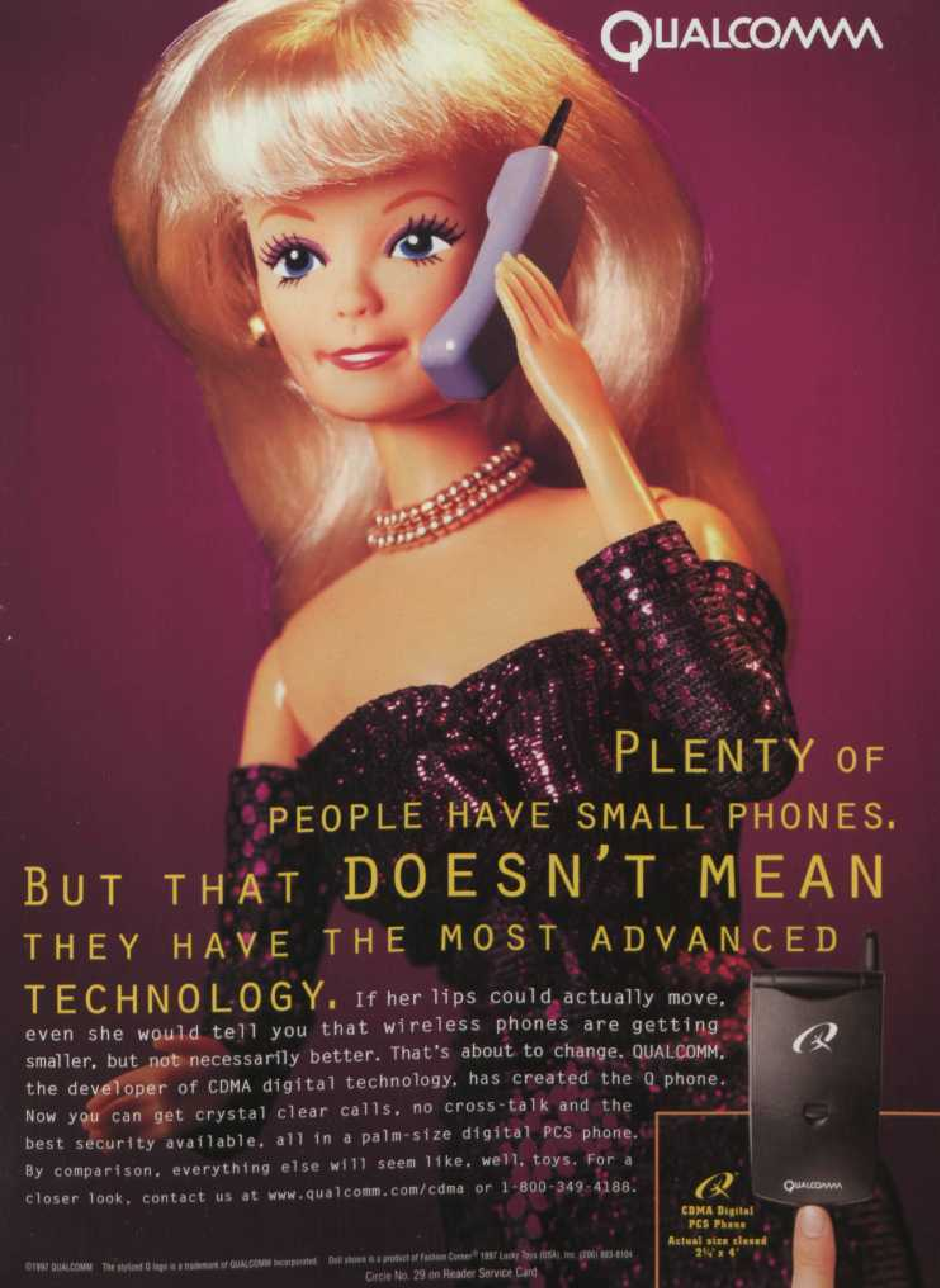
Even as it deals with this agreement, Congress is fully aware that long-term budget balance will require further action, particularly on entitlement programs. While the plan addresses the need for action to head off the immediate crisis facing Medicare, it puts off the tough decisions that must be made eventually to keep that program and the Social Security retirement system solvent.

But the agreement is nevertheless historic. It provides for the first balanced budget in 30 years. It brings a Democratic president and a Republican Congress together behind a policy of spending restraint and tax relief. It reverses fiscal trends rooted in the early 1930s.

These are major achievements. They substantially outweigh any shortcomings of the budget agreement.

There will be extensive follow-up activity in Congress to implement provisions of the new pact. Committees must draft specific legislative changes to revise tax and spending policies to conform with the agreement. Those changes themselves could become controversial.

But it is important that Congress take advantage of this rare opportunity to begin putting the nation's fiscal affairs in order. There have been too many setbacks in the quest for budget balance to falter now that success is nearly at hand. NB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